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A MID YEAR REVIEW OF THE ECONOMY - 1981

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Prefatory

Three opening comments may be made. First, a mid year review faces a timing problem. The six months of the financial year which has elapsed is too short a time span on the basis of which any reliable assessment can be made. Inevitably therefore it extends beyond the past 6 months into all or part of the previous 12 month period. In fact for any kind of predictive or forecasting purpose, a time basis extending beyond even the 18 months may be necessary. The mid year review is thus a conspectus of the economy at the mid year point, tracing back varyingly and flexibly to a year or 18 months, and looking ahead similarly to the next 6 months of the year, but beyond it to the following year as appropriate.

Second, in a short term review, there is also the problem of insufficiency, provisionality and seeming variability of data used for the review. On many important issues, such as the savings of the community and investment, public and private, foreign trade and balance of accounts, the data is either not available or is available only for the first 2 or 3 months of the year. Further even when made available fairly rapidly with a few weeks delay as in the case of whole sale prices, the census figures, or the export-import statistics, the data is provisional and there is the problem of mixing provisional data with final firm data in making computations. And then there is the varying statistics for the same phenomena that are quoted, as in the case of the rate of inflation or the rate of growth of the economy. These variations arise from the use of different basis and methodologies: in the case of prices, it may be annual or monthly averages, or point to point estimations: in the case of

rates of economic growth, it may be based on National Income, what economists call Net National Product, or Gross Domestic Product, or Gross National Product. Each will give a different figure and it is well to make clear what base is used and why.

Third, in this year's Mid Year Review, there is advantage of having a fairly clear and firm norm against which the economy's performance may be measured. That norm is provided by the Sixth Five Year Plan (1980-85), as well as review of the First year of the Plan (1980-81) and the elaboration of the second year of the Plan (1981-82). These norms have been approved by all the constituent authorities, and according to the government have been used in guiding the economy. The Plan documents thus represent a national consensus on the direction the economy is to take this year, and the content of what should be achieved in this time period. They therefore will be used as a major guidepost in the review of the economy.

An Apercu

The mid year review outlined below presents mixed prospects for the economy for the year. The overall growth of the economy for the year is likely to be around 4 per cent. The major commercial crops - sugarcane, cotton and jute, are likely to yield an adequate crop for the growers and for industry. In regard to foodgrains, the target for the year of 138.5 million tonnes may not be achieved because of the effects of the 4-5 weeks dry spell during the kharif operations in North Western India. Pulses and oil seeds will continue to be in short supply, and the neglect of dry farming and coarse grains output will tell on the poor peasants and the poor generally. Manufacturing industry is likely to double its growth rate over last year to 8 per cent, with infrastructural facilities except railways and ports showing some improvement and functioning less unsatisfactorily. Inflation will slow down to half the rate of the last two years to around 10-12 per cent, but this lower rate comes on top of the 35 per cent rise thatt has taken place in the previous two years. This will have three serious consequences. First the aggregate price rise of

over 45 per cent over the 1979-80 price level in which the Plan resources are expressed, together with the increase in the population for the year of between 12 to 24 million additional persons over what was envisaged in the Plan, will erode the real resources of the Annual Plan and make the achievement of the industrial and agricultural targets difficult. Second it will bear heavily on the purchasing power of the poor majority and push some on the margin into the poverty group. Third coming as it does for the third successive year, there is a very real danger of obsolescence being built into our manufacturing industry - both in the public sector and the private corporate sector. Savings and Investments will continue to rise above the 20 per cent GDP mark, with inflation fuelling a further part of domestic capital formation into inventories. The trade deficit is likely to be half of last year's, but large at Rs.2,500-3,000 crores, if certain corrections in our export and import policies are effected. Rural unemployment is likely to remain large, if not on the increase, with deleterious effects on the rural poor and the narrowing of the narrow domestic markets.

1981 Census

The provisional results of the census is that as at sunrise March 1, 1981 the country's population was 683,810,051. The census also reports that the population growth in the decade 1971-81 was 24.75 per cent, compared to the population growth of 24.80 per cent in 1961-71.(1) This has serious implications for the demographic base and projections of Sixth Plan and the Perspective Plan, in terms of per capita income and investment foodgrains needs, labour force and employment, schooling, housing, health care etc. Because the Sixth Plan using the official Registrar General's projections, based itself on a population of 659 million in 1980 and 672 million in 1981, which means that compared to the provisional results of the census the Plan's population base is short by 12 million persons. Our demographers(2) point out that the 1971 census was taken on April 1, 1971 (because of elections it had to be put off by one months), and so to make the decadal growth rates comparable, the population growth from March 1, 1971 to March 1981 was 24.98 per cent, while the growth from March 1, 1961 to March 1971 was

24.57 per cent. A question that this poses sharply is whether we take the official provisional population growth percentage for the seventies which shows no decline or the demographer's percentage which shows an increase in population growth. A further question is what happened to the Rs.1,000 crores that were invested in family planning in the seventies. This does not seem to have had any results in terms of population control. This should be examined to incorporate the results in the population control programme for the eighties. I am not inclined to accept an explanation offered by some demographers(3) that the provisional estimate shows at least for the first time (except for the decade 1941-51) that there has been no increase in population growth, that having reached a plateau, our population is stagnating and in fact as there was a better enumeration of the population in the 1981 census compared to the 1971 census, the real 1971 growth rate was much higher than the official 24.80 per cent. I do not accept this approach because if this were so, it would mean that India is in a stage of demographic transition, wherein our per capita income increases are higher than our rates of population growth, whereas in fact the correlation of the two in the seventies show neither an increase in per capita incomes, nor a significant acceleration of economic growth. Curiously literacy rates and population growth in the state seem to act as semi independent variables, nor is population increase in a state correlated with its industrial development. In fact other demographers point out that allowing for the population increases in Assam and Jammu and Kashmir which could not be enumerated for reasons of political disturbance in one case and weather in the other, and for the normal under enumeration (of some 1.67 per cent), the actual population on March 1, 1981 might be 698 million. This doubles the shortfall of the population base of the Plan and introduces even more serious corrections in both the Plan and in the programmes currently under execution.

Sixth Plan and Annual Plan

The year saw the publication of the Sixth Plan 1980-85 and the Annual Plan 1981-82(4). The Sixth Plan document follows im the main Plan

Framework which I analysed in some detail in the last year's Mid Year Review,(5) with the following major additions or changes. First a 15 year Perspective Plan (1979-80 to 1994-1995) is included, based on a 5.2 per cent growth for the Sixth Plan period and 5.5 per cent for the Seventh and Eighth Plans with the perspective developed not only in terms of conventional aggregates like GNP, consumption, employment, savings and investment, but also in relation to poverty percentages, life expectancy, consumption of foodgrains, sugar, cloth, electricity and education. The perspective is based on a population of 672 million in 1981 which will increase to 735 million in 1986, 799 million in 1991 on to 864 million in 1996, involving a declining annual average population growth rate of 1.79 per cent, 1.66 per cent and 1.56 per cent in the three Plan periods. On the basis of savings increasing from 21.24 per cent of GDPin 1979-80 to 24.48 per cent in 1984-85 and 27.52 per cent in 1994-95 and investment increasing from 21.76 per cent of GDP in 1979-80 to 25.11 per cent in 1984-85 and 26.92 per cent in 1994-95, GDP morethan doubles, consumption declines with private consumption declining by over 15 per cent, capital formation increases by 25 per cent and the share of the agricultural sector in value added terms declines by 30 per cent and that of mining and manufacturing rises by 16 per cent during this 15 year perspective period. A rather important comment of the Perspective Plan is that depite the 50 per cent increase in average per capita income in 30 years of planning, poverty persists. This large scale poverty persistance, it attributes to (a) adequate economic growth rate, (b) uneven distribution of income and consumption and (c) a high population growth rate. And so it proposes a redistribution of income and consumption in favour of the poor and establishes a target of reducing the percentage of people below the poverty line from 48 in 1979-80 to 30 in 1984-85 on to 10 in 1994-95. Second, the rate of growth for the Sixth Plan has been raised from 5 to 5.2 per cent because the Gross Domestic Product in the base year, 1979-80 was, according to CSO, minus 4.5 per cent (minus 5 per cent in national income) and not minus 3 per cent as forecast in the Economic Survey for 1980-81. Third the pattern of growth in the Sixth Plan derived from an open economy 89 sector input -output model including a 14 sector investment planning sub model, involves an ICOR

of 5.6 and gross output rates ranging from 5.20 for agriculture, 7.76 per cent for mining and manufacturing, including 11 per cent for engineering products, 10 per cent for basic metals and transport equipment, 11.25 per cent for electricity and 7.10 per cent for construction and 6.70 per cent for transport. The savings and investment implication of the VI Plan growth and targets have been referred to under the Perspective Plan. Fourth there are changes from the Framework in the estimate of financial resources to be raised by public enterprises, market borrowing, small savings etc. for financing the Plan, increasing the balance from current revenues from Rs.13,602 crores to Rs. 14,478 crores, reducing the public enterprises contribution from Rs.11,007 crores to Rs.9,395 crores, and increasing additional resource moblisation from Rs.19,150 crores to Rs.21,302 crores. Fifth of the total investment of Rs.158,710 crores the private sector is to invest Rs.74,710 crores, with Rs.16,101 crores in agriculture and allied activities, Rs.30,323 crores in industry and mining, Rs.189 crores in power, Rs.3,390 crores in transport and Rs.24,707 crores in other areas. For financing these activities, private non financial corporation enterprises are expected to save Rs.8,870 crores (reduced from Rs.9,495 crores in the Framework) and private financial enterprises Rs.183 crores (reduced from Rs.1,093 crores in the Framework). This works out to a total saving of about Rs.1,000 crores per annum, which is realistic, as the private sector, financial and non-financial, saves Rs.950 crores per annum at present. The Planning Commission is reported to be working on an Annual Plan model and a set of guidelines, that will help ensure that these estimates of the private sector finances of the economy are actualised. Sixth detailed programmes in 20 subject areas ranging from agriculture to social welfare are set forth in the last 20 chapters (chapter 9 to chapter 28) which are continuous with past programmes, with some innovations, as in dry land planning, organic recycling and biogas development under agriculture, command area water development under irrigation, special area programmes under rural development, appropriate technology under village and small industries, the new deal for the self employed, the decentralised strategy under manpower and employment, new sources of energy under energy, engineering industries under industry and minerals, INSAT under communication,

S and T andrural development, the environment and the states programmes under Science and Technology, the targets under health and family planning, rural housing and water supply under housing and water supply, and hill area development, and the sub plans for tribal, scheduled caste and women.

The Sixth Plan has been formulated in record time, within a six month period - since the presentation of the Framework - compared to the average of 2 to 3 years that the finalisation of the previous Plans have involved. As a consequence, as the price of such speed, there are serious corrections that have to be made, which the annual reviews will give the Commission the opportunity of effecting. The most serious error is with regard to the population size which could have been avoided if the Plan had waited 3 more months for the census results. As the aggregate Plan size is constant, with little chance of raising additional resources over the investment of Rs.158,710 crores plus the current outlay of Rs.13,500 crores, the Plan will have to be reduced in terms of per capita investments, with some prolongation of the anti-poverty targets as set forth in the integrated rural development programme and the minimum needs programme. The higher population growth rate involves revising the declining rate of population set forth for the Sixth and Perspective Plans. If the population increase is due to a higher birth rate (and this will be known shortly), the labour force entrants in the next 15 years will be larger than that set forth in the Plan, and the schooling, adult literacy, health and nutrition and housing programmes will all have to be corrected on the basis of the increased population base. Second the result of the speed has been that inspite of its call for district and block level planning, the Plan had to continue the centralised Plan model, with the consequent drip down theory, in place of the systems and sub-systems approach as an upward synthesis derived from local plans of what people want and decide to produce to meet these wants. The later attempt of the commission to stimulate district level planning will have the same negative results as past attempts because the mould once set cannot be changed or broken. Third a somewhat longer term issue is raised with regard to the element of continuity noted in the Plan. Whereas in the Third and Fourth Plan, some 60 per cent of the resources proposed to be

raised were preempted for meeting continuing commitments, in this Plan some 80 per cent of the proposed total outlay is for continuing commitments. This is necessary for the outlay in maintenance is in a sense even more important than that on new projects. And this raises the question whether the questionable distinction between the Plan expenditure and non Plan expenditure, with the Planning Commission being responsible for the former and the Finance Commission for the latter, and with deleterious consequences for both maintaining ongoing projects and starting new projects, should not be replaced by a single concept of development outlays. Fourth the targets, both for agriculture and manufactures, are modest and can be achieved provided some of the major preconditions for their achievements are met. Foremost among them is price stability. The Sixth Plan resources are expressed in 1979-80 prices and, as will be seen in the later discussion of prices, already in the two and half years since its formulation, prices have risen by over 40 per cent, so that of the outlay for the first two Annual Plans 1980-81 and 1981-82 of Rs.30,526.56 crores, using not the overall inflation rate but the investment goods deflation of 8 per cent per annum, something between Rs.6000-7000 crores of the total outlay have been eroded. The other two conditions are the avoidance of large deficits in the balance of payments, which assumption, the government's large IMF loan negotiations seem to negate, and the actual attainment of the rather high rates of savings and investment assumed in the Plan, that will be dealt with later. One seemingly small issue with regard to the agricultural targets is that while the wheat and rice targets are placed above 4 per cent per annum, the targets of what are called coarse grains, bajra, jowar and maize which are for mass consumption, are at a low 1-2 per cent. Fifth the employment programme is rather weak and needs strengthening as the means of bringing into the market those now outside it, and the poverty reduction programme calls for more progressive taxation, a strengthened assets transfers programme particularly land reform which is very weakly expressed, and sensible increases in the production of essential goods of cloth, coarse grains, pulses, along with a corruption free public distribution system which really reaches the rural and urban poor.

The Annual Plan, 1981-82 begins with a review of performance of the

economy. Against the Plan target of 5.2 per cent, and CSO's quick estimates for 1979-80 which show that National Income (Net National Product) for that year at constant prices fell by 4.9 per cent, agricultural production by 15.5 per cent, and manufactures by 1.4 per cent, the 1980-81 growth rate of the economy is estimated at 7 per cent, agriculture at 19 per cent and industry at 4 per cent. For 1981-82 the government targets are overall economic growth 4.5 per cent, agriculture 3 per cent, and industry 8 per cent.(6) The Annual Plan for 1981-82 provides for a publicsector outlay of Rs.17,417 crores which is a 15.3 per cent increase in current prices over the 1980-81 outlays of Rs.15,109 crores and which as noted earlier, in constant 1979-80 prices is no increase but an actual decrease. In the sectoral allocations, energy receives the largest at Rs.4,821.87 crores, followed by industry and minerals at Rs.2,686.45 crores, transport at Rs.2,294.46 crores, while agriculture, rural development and irrigation and flood control clubbed together receive Rs.4,339.42 crores, social services Rs.2,412 crores, communication and I & B Rs.573.06 crores and Science and Technology Rs.153.33 crores. It will be noted that the two Annual Plans, following the directing line of the Sixth Plan, concentrate almost exclusively on infrastructure, leaving the private sector with the heavy responsibility for the growth in production and investments. Such production of consumer durables and non durables and intermediates by the private sector can only be guided by market forces, with licensing, credit availabilities diverting at the periphery the production and investment actions of the sector. Short of taking over the production programme of the private sector, which, the commitment to a mixed economy as well as other reasons of managerial and economic efficiency will not permit, the only way in which there can be an assurance that private sector production meets the needs for essential goods of the people is for government policy to undertake massive programmes to enlarge the market, that is to place purchasing power in the hands of the poor majority, so that the market forces will guide the private sector to produce the goods and services needed by that majority.

Finally a study of the components of the national income statistics

published by CSO[7] shows that while from the fifties to the mid seventies the share of agriculture in the National Domestic Product at current prices was higher than at constant 1970-71 prices, from the mid seventies agriculture's relative share has fallen, which means that the terms of trade have turned in the second half of the seventies against agriculture, but not in favour of manufacturing industry, as in favour of trade, hotels and restaurants. This is interesting as the popular view is that agriculture's terms are losing to industry. Similarly in the rural urban differences there is a nuance. The ratio of per capita NDP in urban areas to per capita NDP in rural areas is 2.4:1, while the ratio of the relative per capita consumer expenditure is 1.5:1, which means there is less disparity in rural urban household consumption than in their per capita NDP.

Fiscal Policy

The fiscal policy as set forth in the 1981-82 budget calls for certain comments. First, the fiscal policy has taken a serious and deliberate risk at a time when the Sixth Plan outlay review at the start of the second year indicates short fall in resources, almost amount to a resource crisis, which has a short term and a long term dimension. In the short run, the crisis arises in part because the fiscal policy has reduced the tax burden on 25 lakhs assessees and raised the income tax exemption limit not by Rs.15,000 as set forth in the budget document, but by Rs.22,000, if deductions for savings through life insurance, provident funds and dividend incomes are taken into account, and has put back into the hands of private individuals some Rs.146 crores according to the budget document, but taking into account the foregoing also of any tax on agricultural households, the resources foregone are of much higher order. The foregoing of any increase in indirect taxes - which all previous budgets have provided - belong to this same class. To what use will this income now turned over or left with middle income groups be put - in so far as it is not eroded by the continuing process of inflation? Will it be saved and invested, at least for a large part, or will it simply add to final consumption expenditure? The long term nature of the resource crisis is probably more serious as the resources foregone as a result of the 1981-82 fiscal policy are reinforced by the serious erosion of the Sixth Plan

resources through inflation and the growing deficit budgeting and deficit financing well above what is permissible or envisaged in the Sixth and perspective plans. The effect of the resources shortage will be reflected in lower allocations to the anti-poverty programmes, in the inability to undertake the mass programmes to widen the market, and in no lowering - probably some increase - in the number of people living in poverty. A second group of risks in the budget strategy relates to the tax relief to and lightening of the tax burden on the private corporate sector to which should be added the tax holiday granted to the free trade zones, the stimulus and subsidies to exports and the allocation of most plan resources to infrastructure referred to earlier. Further fiscal policy is directed to reducing tax liabilities of growing and modernising firms to zero and promoting investment oriented rather than management centred firms, which is needed and sound. Here again the question is whether the private sector will justify these risks of reduced fiscal levies by promoting investment and the process of continuous modernisation - and contributing to industrial growth of the kind that the mass of the people need. A third risk of the fiscal, - not direct budgetary, - policy was the raising of the administered prices of coal, steel, petroleum products, drugs, paper and cement, the risk in this case consisting of the possibility that these prices increases may fuel inflation. They will and have, but the extent to which they will do it depends first on how far the market for these and the intermediate and consumer goods to which they have backward linkages are rapidly expanded, thus reducing their unit cost and dampening to that extent the cost push forces, and second how far the rise in prices acts as an instrument of causing cost induced conservation of goods which are in limited supply. Will the additional resources that have been made available to the government and the public sector units which are of the order of Rs.3,000 crores be used for investment and so help to close the supply-demand imbalances which seem to be worsening with time?

But this risk of using the increase in administered prices to cut back demand and bring about a demand supply balance is made nonsense of under the blackmoney regime in which we live. A second feature of the fiscal policy this year was aimed at dealing with this black money phenomenon. It

may be recalled that this is the sixth attempt that is being made to deal with black money: the first voluntary disclosure of unaccounted money was in 1951 (Rs.70 crores disclosed - Rs.11 crores taxed), the second and third in 1965 (Rs.200 crores disclosed and Rs. 60 crores taxed), the fourth in 1975 (Rs.1,500 crores disclosed and Rs.200 crores taxed), the fifth in 1978 (when notes of Rs.1,000 to Rs.10,000 were demonetized with unrevealed consequences), and now the sixth in the Special Bearer Bonds scheme, which aimed at collecting Rs.1,000 croresof unaccounted money. The bonds are immune from income, wealth and gift taxes and are redeemable after 10 years at the rate of Rs.12,000 for every Rs.10,000 worth bond purchased. This means that the implicit tax involved is 22 per cent (if like the wise virgin the bond is used to borrow from banks to invest in business with a return of 6-7 per cent) or 54 per cent (if like the foolish virgin it is allowed to lie dormant). In any case, it is far less than either the 66 per cent of the maximum marginal rate of income tax or 70 per cent of the combined incidence of top income and wealth taxes. Fiscal policy was here not concerned with the unfairness involved to the normal law abiding tax payer, as with the urgency of reducing to some extent the excessive liquidity of the economy to which this unaccounted money was contributing, and in the process to diverting the contributed part to augment the resources of the regular economy - the Plan. The results are known. The scheme came to an end on April 30, 1981 and produced Rs.357.19 crores. In an effort to increase the pressure on the flow and use of black money, the government got parliamentary approval in September to banks paying through payee/account cheque only all sums above Rs.10,000 and all redemption of the special bearer bonds. I think that there is general agreement that there are ways of getting around this provision and that what is involved is tinkering with a problem whose magnitude is being legitimised. In fact there is no distinguishable identifiable black sector in the economy. In almost all major transactions black and white money are so mixed in that they cannot be separated, and only a part of the unaccounted transactions is in money form. There are certain indicators for the recognition of black money in operation. They include situations where the velocity of money incomes is higher than the established velocity, whenever the rate of return is demonstrably and several times higher than the normal

business returns, wherever the taxable value of a transaction is below its actual value, and whenever the prices of gold and silver and real estate rise faster than the rate of increase in general prices.[8] Unaccounted money has now become so all pervasive and dominant in the economy, that the painful ultimate remedy of demonetization should be seriously considered and supported by all political parties in the interest of their survival and all business houses engaged in legitimate business.

Finally the budget strategy incorporate a rather important deficit element. The budget deficit of the Union and state governments in 1979-80 was Rs.2,624 crores, in 1980-81 was Rs.2,523 crores and in 1981-82 is estimated at Rs.1,923 crores.[9] There are a few comments that are called for on this issue. First with the results of special bearer bonds scheme announced, there is a gap of over Rs.640 crores that stands alongside of the budgeted deficit for this year. Second the Sixth Plan assumes a deficit for the five year period of Rs. 5,000 crores, of which atleast Rs.4,400 crores have been preempted in the first two years. Third it should be realised that the alternative to a budget deficit is increased tax revenue, and given the uneven relationship of indirect to direct taxes in the country at 14.11 per cent of national income for the former and 3.3 per cent of national income for the latter, it means either more income, wealth and corporate taxes or more revenue accrual (what is called buoyancy in tax receipts) from a fast growing economy - on the production side and from personal incomes. Incidentally I should add that I have not come across any empirical evidence to substantiate the view that a lowering of taxes increases the total revenue collection and reduces the incidence of tax avoidance. Fourth the distinction between deficit budgeting and deficit financing is important for the regulation of the economy and prices. While the budget deficit refers to the excess governmental expenditure over income, deficit financing refers to the net increase in short and long term borrowing of the Union and state governments from the Reserve Bank, plus variation in cash balances - in 1978-79 this was Rs.2,937 crores, in 1979-80 Rs.4,295 crores in 1980-81 Rs.6,522 crores.[9] It is this latter which has an impact on prices and other facets of the economy.

Prices

In view of the varying figures quoted with regard to the rates of inflation, the rates as agreed to by government and economists may first be established as follows:

Wholesale and consumer price rise

Year	Annual Average	Point to point	Average monthly	Consumer price official	Economic Times
1979-80	17.1	21.4	23.3	12.7	19.4
1980-81	18.1	16.4	15.4	9.4	17.9
1981-82 (April-August)	6	6	5.5	9	10

Thus, whether the annual average is taken or the point to point rise is taken, wholesale prices in the last two years have risen by 35-38 per cent, retail prices by 30 to 46 per cent, and the rate of inflation this year has lessened to 6 per cent in the first five months and is likely to be between 10 to 12per cent for the whole year in 1981-82. What needs to be noted is that this year's lower price rise is on top of the 35 per cent in the last two years and that the consumer price rise is catching up with the whole sale price rise. These official statistics on the rate of whole sale and retail price increases, do not take account of the fact that many articles, both consumer goods and intermediates, such as cement, steel, paper, drugs, cloth, some machines and machine tools are not available at the established prices in the regular market but are freely available at prices that vary from two to eight times the officially recorded prices in the black market. This further major inflationary force is not taken into account here because there are no recorded statistics on it available. The causes for the officially recorded price rise are to be found in: (a) Speculation hoarding and poor management. Even in the good agricultural crop year of 1980-81 food prices rose at a higher level than even prices of petroleum and other administered prices - food prices by 17.9 per cent, cereals by 12 per cent, pulses by 9.8 per cent, and vegetables and fruits by 19 per cent. There is no explanation for this

kind of price rise which is continuing at a lower rate (in the first quarter of 1981-82 food prices rose by 5 per cent) except the shortages caused by speculation, hoarding and poor management. This combination applies also to our import of consumer goods, which is against all the laws of comparative cost advantage, and which does not really benefit the average consumer, because of the poor distribution net work, as pointed out by the Reserve Bank.(10) Here what is required is better management of available supplies - of sugar, edible oils, cloth, steel, cement, together with the use of the punitive powers vested in the government in the National Security Act and Essential Commodities Acts of the states to control and counter speculation and hoarding. (b) A second factor explaining the rate of inflation is the high liquidity of the economy (not only because of the unaccounted money to which the government points an accusing finger) as seen in the unusually large RBI credit to government which rose by Rs.6,665 crores (78 per cent) in the two years 1979-81 from Rs.8,564 crores in March 1979 to Rs.15,732 crores in March 1981. Bank credit to the commercial sector expanded by 38 per cent, Rs.9,800 crores in this period.(11)* Against this situation, the various measures taken by RBI to restrict commercial credit namely raising the Cash Reserve Ratio from 6 per cent to 7 per cent in the two stages, raising rediscounts and refinance rates from 11 to 14 per cent, reducing the export finance rate from 10 to 9 per cent, raising its interest on bank's balances from 6.5 to 7 per cent, holding the level of non-food credit for 1981-82 at the same level as that for 1980-81, are irrelevant. As the liquidity of the economy is caused by excessive borrowing by the government, it is there that there should be drastic restraint and not only in the commercial sector credit. Further the raising of the Cash Reserve Ratio instead of the Statutory Liquidity Ratio which would have offered increased placement opportunities for government securities and so

*RBI's annual Report for 1981-82 using its accounting year of July-June reports an increase of RBI claims on government of Rs.1,519 crores in 1978-79 (18.5 per cent), Rs.2,675 crores in 1979-80 (27.4 per cent) and Rs.4,855 crores in 1980-81 (39.1 per cent) and an increase in bank credit to the commercial sector of Rs.4,674 crores in 1979-80 and Rs.6,070 crores in 1980-81 (an increase of 17.5 and 19.5 per cent).

released credit resources for the production sector, now results in further government borrowing from RBI with serious effects on prices and reduces bank resources for the commercial sector, particularly for the priority and weaker sections. Here what is needed is great restraint in government borrowing and increasing the Statutory Liquidity Ratio and not the Cash Reserve Ratio. (c) A third and increasingly important cause of inflation is what I have earlier referred to and called last year the cost push factor. In fact some hold this and not the short supply of goods or increased money supply to be the cause of inflation.[12] There is the continuous rise in railway rates and fares (bringing in additional revenues of Rs.178 crores in 1979-80, Rs.204 crores in 1980-81 and an estimated Rs.356 crores in 1981-82), the two last increases in petroleum product prices in June 1980 bringing in Rs.1,400 crores per annum and in January 1981 adding Rs.1,200 crores to costs, the increase in the prices of fertilisers, steel products, cement, coal, paper and drugs alongside the rise in the purchase/support prices of all agricultural products, cereals, cotton, jute and sugarcane.[13] Earlier it was suggested that this cost push factor of inflation can be met only by expanding the market. That is a long term counter. Immediately the effect of these increases is likely to contribute to a rise of 8-10 per cent of prices over the next twelve months. Every ministry that is involved in the raising of administered prices announces that the increase will have minimal effect on prices - railways claim that their last increase will raise prices by ½ per cent, petroleum and chemicals announce that their increase will have a 3 per cent impact on prices. These claims are not based on a study of their cost push effect, but even taking them at their face value, they add up to the aggregate impact of 8-10 per cent referred to earlier.

For corrective action, the steps to keep down the rate of inflation have been indicated - better supply management, punitive action against smuggling and hoarding, reduced government borrowing from RBI and reliance by the Reserve Bank on varying the Statutory Liquidity Ratio, and continuous expansion of the domestic market to absorb the cost push factors which will be the main force at work in the next 12 months. But the country

will have to live with the inflation which in the last two and a half years has involved a 40-44 per cent increase in wholesale and retail prices and a 18-20 per cent rise in the price of investment goods, steel and machinery.(14) This rate of inflation has serious negative effects on what the Plan document calls the poorest 30 per cent in consumer expenditures and the near half of the population living below the poverty line. Some facets of our poverty profile, consumption expenditures, and asset distribution are given in Annexe I. Here the Plan programme for intensifying the National Rural Employment Programme, the Integrated Rural Development, the various sub Plans for scheduled castes and tribes and hill areas, along with a real redistribution of assets holdings, should be regarded as some compensation for the inflationary impact on the low consumption levels of the poverty group. The other serious consequence of the level of inflation that we have attained and that we must live with, is in regard to the public and private sector enterprises. Here the 18-20 per cent inflation of investment goods and machinery prices alongside of the companies accounting for their depreciation reserves in terms of the original purchase price of the investment goods, means that we are building obsolescence into our manufacturing industry. This also explains why sickness has become all pervasive in large, medium and small industries. This was recognised by the government 5 years ago in its Economic Survey for 1975-76 which stated "the steep increase in costs of machinery and equipment in recent years is affecting not only new investment but also modernisation and replacing of existing equipment. In a period of rapidly rising prices, depreciation formula based on historical costs ceases to provide adequate resources for the replacement of the existing worn out equipment. Moreover in industries under price control, so long as the calculations of permissible rates of return/continue to be based on an historic cost of fixed capital in use, there is a built in disincentive to new investment. The problem of steep escalation in capital costs, is, however, today a general problem facing Indian Industry and ways and means have to be found to deal effectively with the same. This rather clear and exhaustive comment on how capital costs inflation is promoting obsolescence, and acting as a constraint on investments has not been followed up. I would suggest to start with that public and private sector firms adopt

the inflation accounting system as is done in all industrialised countries, which will atleast show clearly how much additional working capital is needed, along with the part that is due to replacement in face of inflation and the part that is due to expansion. For this, the firms must be willing to accept a cut back on their dividends and returns and must train their accountants in inflation accounting.

Agriculture

Foodgrains production in 1980-81 recovered from the steep decline of the previous year. The government estimates that the production will be 131 million tonnes, rather than the original target of 135 million tonnes or the May revised target of 133 million tonnes. Rice production was an exception at 56 million tonnes against the target of 55 million tonnes. Wheat output was 34 million tonnes rather than the expected 36 million tonnes due to the effect of the wheat pest in the North West, along with damage from rains and hailstorm. Coarse grains were 29 million tonnes against the low target of 30 million tonnes, pulses production was 11.5 million tonnes rather than the targetted 12.5 million tonnes, and oil seeds 10.25 million tonnes in place of the 11 million tonnes target, due to failure of rains in Rajasthan and lack of timely rains in the case of oil seeds. For the current year, the targets set are: foodgrains 138.5 million tonnes (rice 58 million tonnes, wheat 38 million tonnes, coarse grains at a stagnant 30 million tonnes, pulses 2.5 million tonnes, oil seeds 11.2 million tonnes), with the area under irrigation increasing from 2.47 million hectares in 1980-81 to 2.63 million hectares in 1981-82. The agricultural year started well with good rains, the cumulative rainfall from 1st June to 2nd September being normal or in excess in 31 out of 35 meteorological subdivisions. In a report to Parliament in mid September,(15) the government stated that during the five weeks ending 2nd September, Rajasthan had deficient rainfall in 3-4 weeks, Haryana in 4 weeks, seven out of twelve districts in Punjab had deficient rainfall in 4 weeks, Western UP had deficient rainfall in 4 weeks. The continuous dry spell in North Western India during August-September has caused moisture stress to the standing kharif crops, it is reported, and the extent to which the kharif rice target of 58 million tonnes will be attained

is in question. Punjab and Haryana have imposed powercuts on industrial consumers in order to provide daily 12 hours of power to farmers. Even as this note is being written, the states in the North Western Region report a break in the dry spell and some rains.

Two questions with regard to our foodgrains situation need comment - the procurement and import of wheat and the export of cereals. The government fixed for the 1981 rabi wheat crop a rather high procurement target of 9.5 million tonnes - high in relation to the 1980 rabi procurement of 5 million tonnes and the previous annual targets of 6-7 million tonnes. The reason for the high procurement target was that the government's bufferstock, which ought to be 15 million tonnes plus an operational stock of 3 million tonnes (according to expert advise accepted by the government) was on July 15, 1981 13 million tonnes compared to 16.25 million tonnes on July 15, 1980 and 21.44 million tonnes on July 15, 1979. Of the 13 million tonnes, wheat stocks were 5 million tonnes, and if the monthly offtake is maintained at 5 lakh tonnes till March 1982, the wheat buffer will fall to 1 million tonnes. It is to build up the buffer that the government imported 1.5 million tonnes of wheat at a landed cost of Rs.160 per quintal compared to the domestic procurement price of Rs.130 per quintal. It is likely that more wheat will have to be imported to build the buffer. In this context, what is not realised is, that in a good year, India produces wheat just enough to feed its wheat consuming population, that the buffer stocks were built from 1976 as a result of the 22 million tonnes of wheat imports between 1973 and 1976. Meanwhile the rise in wheat production is slowing, the 34 million tonnes produced in 1980-81 was only a little higher than the 1979-80 crop and population is growing at 5 per cent and even higher in the wheat eating states of UP and Bihar. The final procurement figures for rabi wheat have not been published but by July end it amounted 6.8 million tonnes. This short fall could have been avoided, as also the low buffer stock situation caused by the government somewhat recklessly running down its wheat stock in 1979-80. The procurement short fall was due to government wrongly calling the 1981 rabi crop a bumper crop which it was not (it was an average crop, not meeting either population or income increases), and whereas the equally good 1978-79 crop was preceded by a string of good

harvests, the 1981 rabi was preceded by a drought year. On top, small signals, like the Prime Minister's personal efforts to boost procurement and that of other cabinet ministers, gave the large farmers the signal that they should hold back supplies for higher prices. Our surplus producers and traders have by now acquired a great deal of staying power, and with an inadequate and somewhat corrupt public distribution net work, lower supply higher procurement prices lead to even higher free market prices. The import of wheat is not only not a calamity that it is thought to be, it could rest on sound comparative cost advantage (economic) grounds. Rice production being labour intensive, India has a comparative advantage in its production, its cost (for the superior varieties) being Rs.2,000 per tonne and its international price (not only in the gulf countries but in Europe) being Rs.3,000 per tonne. In wheat production, which is not labour intensive, we are at a comparative disadvantage, so that serious thought should be given to exporting rice on a regular basis, as for every 1 tonne of rice exported to could import 2 tonnes of wheat. With the government announcement in late September of the kharif procurement price for rice at Rs.115 per quintal, some similar problems must be faced in the case of rice. The adequacy of the price to meet the rice procurement target which has not been announced but which will have to be 6.5 million tonnes to prevent a net reduction of the rice buffer (my estimate of the 1981-82 offtake of rice is that it will be 6 million tonnes, given the demands made by drought areas). The 1980-81 procurement was 5.8 millions. If the current dry spell referred to earlier breaks and the kharif crop is some where around the targetof 56-58 million tonnes, a more adequate price will have to be offered to paddy farmers to meet the domestic procurement need, and make possible rice exports as a means of obtaining wheat imports.

Cotton

Cotton crop forecasts continue to suffer unreliable and changing estimates referred to in the last review. Against the Plan documents bland statement of a 1980-81 target of 81 lakh bales and likely production of 79-80 lakh bales and the 1981-82 target of 84 lakh bales lies the following tortuous course of events. In August 1980, the Cotton Advisory Board forecast

a production of 76 lakh bales, which with 24 lakh bales of carry over made for an availability of 100 lakh bales. It also estimated an off-take of 75 lakh bales and a carry forward of 25 lakh bales. Against this, the Indian Cotton Development Corporation in September requested a rise in the support price of cotton and recommended an export of 4 lakh bales. In October, government released 1 lakh bales for export, though growers were pressing for the export 2 lakh bales more. In November, the textile industry seeing the coming rise in cotton prices revised its estimates of cotton production downward, its consumption upward and asked for a blanket ban on exports. In December due to the post monsoon drought, the cotton prices index rose by 25 points, which led the government to suspend exports. By the end of January cotton prices increased by a further 15 points, which led the government to extend the export ban till the end of March. Cotton prices kept rising, by April 1981 rising by another 20 points leading to there being no final estimate of the 1979-80 crop and only a target of CAB for 1980-81 at 82 lakh bales, with the government suggesting a 75 lakh bale target. Meanwhile the Cotton Corporation of India and the Maharashtra State Federation purchased 10 lakh bales at prices ranging from Rs.275 to Rs.320 crores (the latter being 30 per cent above the official support price). Finally in June the 1980-81 production was established at 78 lakh tonnes(some 1.80 lakh tonnes below the Annual Plan document figure), the price rising from 182 in August 1980 to 267 in June 1981. By August the Industry, including the National Textile Corporation, made a demand for the import of 10 lakh bales of coarse and medium varieties (the industry demanding also the banning of all exports). The government gave into the import demand and contracted with Pakistan in August for the import of 1 lakh bales of short and medium varieties, but then found difficulty in disposing of the import. The industry found it had adequate stocks of this variety after all, and took only 15,000 bales, while NTC and the state units took about 40,000 bales. If the government decision to export 55,000 bales is carried out, it will earn Rs.18 crores against the outgo for the import from Pakistan of Rs.25 crores. Further the Textile Commissioner announces on September 24 that he envisages a shortfall of

5.14 lakh bales of cotton by the end of November because against the opening stock of 15.34 lakh bales on September 1, the estimated consumption in September to November will be 20.48 lakh bales. Against this confused and confusing background, I can only suggest that in the interest of the cotton growers and the mills and handloom industry not to speak of the consumers, some more reliable method of forecasting cotton production and its offtake, including exports and stocks with the industry needs to be urgently devised.

Sugarcane output, according to the Annual Plan 1981-82 was an estimated 152 million tonnes for 1980-81 and the target for this year established at 182 million tonnes. This is one area where the trade, industry and government are in agreement as far as the volume of cane production in 1980-81 is concerned and also in regard to the 1981-82 target. The special problem in regard to sugarcane is the wide and increasing divergence between the statutory cane price established by the Union government at Rs.125 per tonne in 1979 and raised to Rs.130 in 1980, and the price paid by the state, cooperative and private mills. In 1979-80 the mills paid Rs.250 per tonne (which was double the statutory price), and in 1980-81 the Maharashtra cooperative mills paid Rs.270 per tonne (which was again double the price) and promised the growers a further bonus of Rs.30 per tonne when the sugar was sold. For this year, the mills are paying Rs.300 per tonne, while the statutory price is Rs.130 per tonne. This wide gap is explained by the growing bargaining strength of the cane growers, the high price of free sale sugar and the strong competition from gur and khandasari producers. (In fact the demand for gur and khandasari is relatively inelastic as seen in the fact that while between April and July sugar prices fell by 30 points, the gur and khandasari price fall was not even half of that). Should there be some attempt to close the gap between the statutory and actual cane price? Probably it is better to leave the statutory price as the minimum price for a further year before acting to close or narrow the gap as any attempt to do so will push up the levy price. Meanwhile the industry has for the first time opposed the government move to grant excise duty rebate on sugar cane crushing in the first 2 months of the

new season - October and November 1981 - with good reason, as that will lead to crushing immature sugarcane with low recoveries, and as with the good production in the last season and the higher production anticipated for this year (here the industry over states its case), there is no need for early crushing.

Jute and Maesta production attained their 1980-81 target of 83 lakh bales. For 1980-81 the target has been set at 84 lakh bales. Price support action had to be taken by the Jute Corporation of India which purchased 10.62 lakh bales in 1980-81. It has announced its plan to buy 12 lakh bales in 1981-82. The farmers faced a crisis in September as with 40,000 bales arriving in the market every day, the Jute Corporation could purchase only 10,000 bales and the mills had stopped purchase of new jute, pleading lack of funds. The RBI and Union government have stepped in and though there are problems with the earlier credit given to the mills, additional credit has been provided to enable them to purchase 6 lakh bales a month, while the Jute Corporation will purchase 25 per cent of the total production. These price support activities and ad hoc relief measures are rightly regarded as inadequate by the jute growers and contrast strongly with the much larger support activities undertaken by the Cotton Corporation of India, the cotton cooperatives and state marketing federation. The jute consumers, the jute mills, also have added to the problem, as will be seen later.

The Irrigation programme provision for 1980-81 of Rs.1,521.71 crores (which is a reminder that agriculture is as much capital intensive as is manufacturing) was used to create additional irrigation of 2.46 million hectares, which was 0.4 million hectares short of the target, and which is attributed to the scarcity of infrastructure - power, transport, cement, steel and coal. More seriously the short fall in utilisation was 0.46 million hectares, and on top of this is the lack of canals and channels resulting wasteful water use. In 1981-82 Rs.1,708.92 crores have been provided to finance an increase of 2.68 million hectares in irrigation potential. Some progress is needed in three areas. One is the area of interstate disputes which has reached an impasse, holding up the irrigation and hydel development of the

country to the point where such rivers becoming a Union government responsibility in list I should be seriously considered. Second an attempt should be made to recover some of the losses suffered by the state and Union governments in not collecting adequate irrigation charges, the losses this year alone amounting to over Rs.100 crores. Third there is also the need to pay some urgent attention to the major cultivated agricultural area of the country, which is the rainfed area.

Manufactures

Manufacturing industry which registered, as I forecast in last year's mid year review, a 3.6 per cent over all growth in 1980-81 really began the upward move from June 1980, with an average monthly growth of 2.1 per cent during July-September, 6.4 per cent during October-December, and 8.2 per cent during January-March.(16) The sectors which performed well were the engineering subsector, 16.9 per cent, machinery 39.5 per cent, chemical and pharmaceutical machinery 27.6 per cent, metallurgical machinery 32.8 per cent, cement machinery 20.7 per cent, machine tools and boilers 12 per cent, agricultural tractors 13 per cent, sugar machinery 22.1 per cent, earth moving equipment 17.7 per cent, electricity 13.2 per cent, and beverages, 45.4 per cent: the poor performers were wood and cork - 47.8 per cent, leather and fur products -20.3 per cent, and metal products -5.3 per cent. This industrial recovery continued this year, the official index of industrial production showing a growth of 11.2 per cent for April and May in relation to the April-May 1980 record. The June index recorded a 11 per cent increase. The positive growth industries are once morechemical and chemical products (19.4 per cent), non metallic mineral products (16 per cent), industrial machinery (32.1 per cent), tobacco (17.2 per cent) and metal products (16.7 per cent). For 1981-82, the government target for industrial growth is 13-15per cent, for which the Annual Plan provides an outlay of Rs.3,581.41 crores in the union sector and Rs.291.38 crores in state sector which are, as pointed out earlier, mainly for the development of infrastructure, for which balancing equipment for modernisation and renovation of existing units, capacity expansion and increased capacity use are provided for. For 1981-82 I estimate industrial growth could be 8-10 per cent. It is my hope that the next Annual Plan will use the model which has

been developed also to indicate, on an indicative basis, the private sector investment and production achievements of the past year and forecast for the following year.

The performance of the Public Sector enterprises in 1980-81 continued to be poor in terms of their net yield, as a contribution to the Annual Plan resources for 1980-81, which among other factors led to the downward revision of the estimate of additional resource mobilisation from Rs.1,479 crores to Rs.1,048 crores. The public sector enterprises in October 1980 number 189, of which 11 were under construction and 7 were insurance companies. The total capital employed in 149 companies was Rs.18,141 crores (on 30 June 1980). In 1979-80, 152 units report a gross profit of 6.58 per cent of the capital employed, and a net profit of -0.92 per cent (which is a loss of Rs.149 crores). In the first quarter 1980-81 they report a net loss of Rs.161 crores. The biggest losses are recorded by Coal India - Rs.212.16 crores. The majority of the units have made net profits, ranging from 40.77 crores for Minerals and Metals to Rs.173.19 crores for petroleum. The Sixth Plan frame forecasts a public sector contribution of Rs.15,000 crores and the Annual Plan for 1981-82 has budgeted for contributions from public enterprises amounting to Rs.1,048 crores.[17] The reasons for the poor performance of about 1/3 of the units resulting in losses are: (a) 27 of the units are functioning at below 50 per cent capacity use, (b) taking the cost and time overruns into account, the defective feasibility and engineering reports on which some have been established, (c) the system of administered prices, where in prices of some units like those producing steel, coal etc. are kept deliberately below cost of production because the product is in demand by the poverty sector, or is an input into small industry or into the backward regions production sub system (here I must repeat my caveat that I am unsure about how for the poor consumer rather than the well to do and black marketeer benefits from these subsidies), (d) the import policies followed by some departments of government which result in empty or emptying the order book of some units, (e) the lack of functional autonomy of the units, and (f) the incredibly low pay of the managers whose emoluments are about 1/3 to 1/2 of those in the private sector.

Using the yardstick of profits after tax, the private corporate sector performed well in 1980-81. A recent RBI study[18] of 426 private corporate sector firms shows that their production was Rs.14,286 crores, their profits after tax increased from Rs.453 crores in 1978-79 to Rs.600 crores in 1979-80 and Rs.700 crores in 1980-81, and their capital formation rose from Rs.441 crores to Rs.522 crores and Rs.610 crores in the 3 years. Further the private corporate sector is tending to grow faster than the national economy, on the basis of the accepted indices. An ICICI study[19] of 417 public limited companies records a 56 per cent increase in sales from Rs.6,287 crores in 1974-78 to Rs.9,810 crores in 1978-79, and a 47 per cent fise in their gross fixed assets from Rs.4,241 crores to Rs.6,241 crores, while the country's GNP expanded only 37 per cent during this period. The 1974-75 RBI study[20] of 1,650 private sector firms similary shows a 27 per cent rise in sales, 29 per cent increase in value of production and income, a 35 per cent increase in gross profits, 37 per cent rise in profits before tax and 34 per cent increase in profits after tax while GNP for that year rose by 17 per cent at current prices. The 1977-78 RBI study[21] of 1,720 companies shows an increasing concentration trend in the corporate sector in that 441 of the large companies with more than Rs.1 crore of capital which constituted 70 per cent of total capital in 1965-66 grow to 75 per cent in 1970-71 and to 80 per cent in 1980-81. Also the rate of gross and net fixed asset formation is higher for large companies at 9.2 to 9.6 per cent compared to 6 to 7 per cent for medium and small firms, due to the former having a lower tax burden at 49.3 per cent to 63.2 per cent compared to the 65.1 per cent to 89.24 per cent tax paid by small and medium companies. The large companies also record lower manufacturing costs, including interest cost, as a proposition of the value of their production. The analysis of the inventories of the large firms shows an increase of their inventories by more than double in 1978-79 and1979-80 compared to the previous two years, (which is a forecast of the expected rise in prices), and that inventory is financed through bank and trade credit.

One measure of the growing sickness in industry is the government report that bank loans to sick units increased from Rs.1,622.55 crores at December 31, 1979 to 20,973 units to Rs.1,763.87 crores in December 31, 1980 to 24,656 units.[22] The basic reason for the spread of industrial sickness was analysed earlier as being due to inflation, which means the decisive instrument to counter sickness is inflation control or allow for it in the accounting system. The other reasons for sickness were dealt with in the Mid Year Review for 1979.[23] The ameliorative action so far under-taken or proposed seem to be ineffective. The government in its report to Parliament this year admits that the scheme of company amalgamations under section 72-A of the Income Tax Act, though now over 3 years old, has yet to make headway. Only 72 proposals were received for the merger of sick units in healthy ones, out of which 41 have been approved. Even so this is a better record with relatively quicker results than the procedure to deal with sick units proposed in the June Industry Ministry document wherein banks are to monitor the units, make a diagnostic study of these becoming sick, and notify the industry ministry which will notify the appropriate ministry which in turn will decide in consultation with the industry ministry whether to nationalise them and if so to take over their management, if not, ask the concerned bank to liquidate the units. This proposed procedure which is meant to speed action will only delay action by 3 to 4 years, which will be the time required for all the bank - industry ministry - administrative ministry consultations to be completed. Government take over is no solution to sickness. Of 52 units taken over, (37 taken over 3 to 9 years ago), only 3 have turned the corner.

Steel The two developments with regard to the steel industry in 1980-81 and for the current year are the steel supply situation and the results of price rise effected last year. The six integrated steel plants produced 6.13 million tonnes of saleable steel in 1980-81 which is 16.3 per cent short of the target of 7.32 million tonnes, and 30 per cent short of their capacity of 8.73 million tonnes. What is depressing is the continuous decline in the production of the integrated plants from 6.92 million tonnes in 1976-77, 6.89 million tonnes in 1977-78, 6.59 million tonnes in 1978-79,

and 6.03 million tonnes in 1979-80. The total availability of steel ingots in 1980-81 was 9.30 million tonnes, (6.13 million tonnes from the integrated plants, 1.71 million tonnes from mini steel plants and 1.46 million tonnes by imports) against the target 10.96 million tonnes which was again 30 short of capacity. This 1.6 million tonnes shortfall in ingot supply has hit the consuming industry, particularly in the vital engineering and engineering export sector. For this year, 1981-82, the Annual Plan sets forth the saleable steel target of 7.27 million tonnes for the integrated steel plants which is lower than last year's target referred to above by 0.5 million tonnes, and within this target the 5 SAIL plants target of 5.7 million tonnes represents 55 per cent of their capacity (which needs investigation in terms of possible constraints of power, coking coal, labour unrest and managerial turnover). The joint plant committee (JPC) forecasts a shortfall of 1.6 million tonnes in supplies this year (particularly 63,000 tonnes in structurals 49,000 tonnes in heavy plates, 25,000 tonnes in hot rolled coils and railway material). With the user industries picking up, the short fall may be even larger, and from this point of view the improved production reported by SAIL plants in the first 4 months of this year (4 lakh tonnes in April, 4.13 lakh tonnes in May and 4.43 lakh tonnes in June and 4.4431 lakh tonnes in July) and the suggestion to raise the year's steel target are to be welcomed. The other development, namely the 20 per cent increase in steel prices in February was not really serious for the user industries, who were paying that and more to get their black market steel, which was being sold at a high premium of Rs.1,000 to Rs.2,000 per tonne and which flourished further under the uncontrolled secondary producers, the rerollers. So the JPC prices, like the controlled cement prices to be referred to later, were prices on paper, and the revised official prices at least hadthe merit of (a) not being above the prices actually paid by the users in the market, (b) increasing the supply by reducing a number of benami buyers, and (c) making available badly needed resources to the integrated plants (the SAIL plants alone reported a loss of Rs.136.40 crores in the first quarter of 1980-81) both to meet their cost escalations and modernisation needs. The retention price increase of Rs.75 per tonne (over the February 20 per cent increase) may logically be right in that it

represents the conclusion of the study of the Bureau of Industrial Costs Prices, but it comes at a wrong time, because thereis a steel glut caused by large OGL imports, and such imported steel is available for Rs.1,500 per tonne less than JPC prices. The price rise was aimed at creating an export promotion fund for engineering goods, which should have been done at the time of the 20 per cent February rise. For now, this Rs.75 price rise should be withdrawn.

Machine tools The machine tool industry, which produces a basic industrial input and is an expanding exporter, needs attention. In 1980 it increased its production by 9 per cent (in income terms by 12 per cent). The Planning Commission's working group on machine tools pointing to the long waiting periods for obtaining the tools (6 months for standard machines, 12 months for precision tools) and the high cost of imported machines recommends for the industry a 13 per cent growth rate per annum for the Sixth Plan, calling for additional investment of Rs.160 crores, in addition to the existing Rs.190 crores capital. There is also the growing export demand, expanding at over 50 per cent per annum, spread out to 63 countries and catered to by over 80 firms. In order that the industry may meet the growing domestic and foreign demand, the financial institutions must increase the investment and the government must grant licences with more flexibility. SAIL and other government agencies should monitor and relieve the raw material shortages of the industry and its infrastructural inadequacies should be removed. The industry can then expand and diversify.

Aluminium The Aluminium supply and demand involve two issues. First there is gap between supply and demand. In 1980-81 the domestic production was 2 lakh tonnes against installed capacity of 3.25 lakh tonnes and licensed capacity of 4 lakh tonnes and imports were 1.30 lakh tonnes. For 1981-82 the production target is 2.5 lakh tonnes and imports forecast in the Annual Plan are 1 lakh tonnes. There is the possibility that the 1981-82 target may not be realised because of power shortages (BALCO had only 2/5 of its power needs met, MALCO about 3/5) and shortage of other raw materials like coal tar pitch, a steel plant by product. In fact the domestic shortage of aluminium is a long term phenomenon: in terms of demand it is set at 9.5 lakh tonnes and

in production at 7 lakh tonnes, so that there will have to be imports throughout the eighties. The world supply situation is becoming difficult - the world demand between 1980-85 will grow by 4.5 per cent and supply by 3.9 per cent, and between 1985-90 it will be 6 per cent and 4.9 per cent. It is against this background inpart that the government is establishing an aluminium/aluminac complex based on the bauxite deposits in Orissa with an investment of Rs.1,242.42 crores, financed in part by a French credit and Euro dollar loan, with a capacity of 8 lakh tonnes of alumina and 2.18 lakh tonnes of aluminium. A smaller project based on the Andhra Pradesh bauxite deposits is also being developed. The other issue in this industry is the somewhat anti-climatic glut reported in June vis a vis the scarcity and shortage referred to earlier. Cables and conductors stocks were reported piling up with producers in May-June at the rate of 15,000 tonnes of cables and conductor coils, 25,000 tonnes of EC grade metal, alongside of 1.75 lakh tonnes of import arrivals plus 40,000 tonnes of imported metal with MMTa. This glut is temporary, and what is needed is for State Electricity Boards to arrest their road to bankruptcy, revise their tariff, and with increased resources resume their offtake of aluminium products. Also the March price rise of Rs.3,000 per tonne (which with the 44 per cent excise means a price of Rs.4,320 per tonne) needs to be revised as it has artificially curtailed demand. The suggestion for exporting aluminium to meet this temporary distortion cannot be taken seriously, as the demand supply gap in the country is still a large one, as pointed out earlier.

Soda Ash Soda Ash's domestic production in 1979-80 was 5.55 lakh tonnes, in 1980-81 5.70 lakh tonnes and in the four months April-July of the current year 2.09 lakh tonnes. On the assumption that this rate of production will be kept up during the year, production in 1981-82 will be 6.27 lakhs. The demand is rising and is estimated at 7 lakh tonnes, which may be an under estimate as the economy picks up, infrastructure improve, and the demand for the heavy chemicals expands. The gap between demand and domestic production has been met by imports which the government has encouraged by placing it since 1978 under OGL and reducing its duty to 35 per cent for light soda ash and 5 per cent for the dense variety. Has the time come to remove these import

facilities in the hope that domestic production will meet the demand? The government seems to think so, at least in part, for the duty on soda ash imports has been raised to 45 per cent and 25 per cent. Imports are necessary to meet the demand for this important industrial input, which on the present evidence the domestic production cannot meet (of the 10.55 lakh additional capacity sanctioned, only 32,000 tonnes were installed in 1980), and imports in this case are a means of keeping and perhaps bringing the prices down as the landed price of imported soda ash is lower than the price of the domestic product.

Dye stuff In the case of the dye stuffindustry, what is happening illustrates the trade off relations between the objective of growth and employment on the one side and the objective of promotion of the small sector on the other. Till 1977-78 75 per cent of dye stuff production was by large units, while 25 per cent (4,500 tonnes out of a total of 25,717 tonnes) was by small units. In the 1978-79 budget, excise tax exemption was granted to 69 small industries, each producing upto Rs.5 lakhs, and was extended in the 1980-81 budget to a total 72 units with a further concession of 25 per cent duty exemption for output between Rs.5 lakh - Rs.25 lakh. The results were that the large units which were paying 31.5 per cent excise (a) found their production unviable, (b) split up their operation into small units to attract the concession and set up many benami units (the small units jumped from 190 to 1978 to 450 in 1981),- and (c) cut back production, laid off workers and reduced capacity use from 85 per cent in 1978-79 to less than 60 per cent today. Total production has declined by 20 per cent and exports by 30 per cent. Dye stuffs should be taken out of reserved list, because that is defeating both the growth and employment objectives and social objectives of the Plan.

Drugs The case of the drugs industry is in a sense the opposite of the dye stuff industry. 65 per cent of drugs are produced by large companies, mainly multinationals, 25 per cent by IDPL and 10 per cent by the small sector. In view of the continuous pressure for price rise by the multi nationals - of the 142 bulk drugs, leaders and invividual formulations which the government has been forced to concede - as well as those of non leaders and the various devices like production cuts of life saving drugs, reduction of drugs

potency etc, there is a strong case for giving incentives to the small sector to expand its share, and for IDPL to move forward more aggressively in the production of bulk drugs,using the relevant high technology which it should purchase outright.

Electronics In the electronics industry, including consumer electronics, components and electronic material, 1980-81 recorded a production of Rs.8.39 crores and for 1981-82 a growth of 24 per cent is envisaged at Rs.1,032 crores, The 1981-82 budget concessions, - income tax and wealth tax and import duty concessions, and the tax holiday to units in the free trade zones - for the electronics industry are meant to expand the production of components and encourage exports. To achieve these aims, these fiscal incentives need to be backed up, as recommended by the Sondhi Committee, by software promotion and research into electronics design and the latest technology, both by the Department of Electronics and by imports as necessary.

Cement Cement production and prices continue to present serious anamolies. Production has continued to decline from 19.56 million tonnes in 1978 to 18.10 million tonnes in 1979, and 17.75 million tonnes in 1980, against the estimated demand of 28 million tonnes in 1980-81. The gap between supply and demand has been and is being met by import for the last 3 years, so that South Korea has expanded its cement producing capacity to meet our import demand, which defies all laws of comparative cost advantage, as noted earlier, locally produced cement costing Rs.300 per tonne and imported cement costing Rs.800/-. Second the government raised the retention and consumer price of cement in July, which presented an absurd situation. The controlled price of cement was Rs.27 per bag of 50 kg, at which price it was available only to the government and not to the ordinary consumer, who found that it was available without any limit in the black market at Rs.130-Rs.150 per bag. The price revision by Rs.54.74 per tonne meant a retention price of Rs.253.39 - Rs.344.74 per tonne and a consumer price of Rs.532,53 per tonne. But this price revision is inadequate to cover costs and give the industry the 12 per cent return recommended by the Lavraj Kumar Committee. This needs review. With the improved supply of coal and lignite which the Southern units are using to the

extent of 25 per cent of their fuel, production is increasing. Between January and June 1981 9.5 million tonnes have been produced, with the prospect of doing better in the second six months. The Annual Plan has provided for import of 2 million tonnes again this year. Production can be stepped up not only by increased capacity of which 3 million tonnes has been effected in the last 3 years, but also by modernising the industry in which, out of 86 units, about half are still using the wet process, which demands double the energy input of the dry process.

Sugar The sugar production forecasts for the sugar year 1980-81 and 1981-82 are somewhat like the cotton crop forecasts referred to earlier. The industry began the sugar year 1980-81 with a forecast of 70 lakh tonnes, and when the price began falling reduced it to 40 lakh tonnes. Now for the sugar year 1981-82 it forecasts again a production of 70 lakh tonnes. The government's estimate for 1980-81 was a sober 50 lakh tonnes which it reduced to 48 lakh tonnes, and in December 1980 raised it to 54 lakh tonnes. Actually for the sugar year 1980-81 which has now ended, government officially announced on the second last day ofthe monsoon session of Parliament that sugar production was 51.8 lakh tonnes.[24] For the 1981-82 sugar year the Annual Plan indicates no production target, a realistic forecast being 60 lakh tonnes. The price situation continues to be a fluctuating one. With partial control and dual pricing introduced from December 1979, the free sale price declined from Rs.15 per kg. to Rs.7, rose again in February and then declined, as noted earlier, by 30 points during the first months of the year. It is now settled at Rs.5-6 per kg. (in Kerala it is still Rs.8 per kg.), which looks like being the price for this year.

Carpet backing The carpet backing industry which had a good year in 1979-80, recorded a decline in production and exports in 1980-81, leading to a 13 per cent price decline, and to mounting stocks. The quantum and value of carpet backing exports declined by 50 per cent in 1980-81 and the slack continues into 1981-82. To some extent the industry is responsible for this parlous situation, as the high prices and profits during the previous 4 years from 1976-77 were not used for modernisation as pointed out by the Planning Commission

RBIand the Ministry of Commerce Task Force.[25] As noted earlier, the commerce ministry and the RBI had to bale out the mills this year with cash assistance and additional credit facilities to enable them to purchase raw jute. In addition, the Directorate General of Supplies is to make a one time purchase of 1 lakh bales of B twills and other jute products from the mills, and the cement industry is to purchase new jute bags - all as means of putting money into the hands of the mills. This kind of emergency action is no real solution to the industry's ills. What is needed is use of the industry's resources now being diverted to consumption and unaccounted money purposes as well as the IDBI's soft loan scheme (which has so far been ignored by the industry) to undertake a planned programme of modernisation and product diversification which can then be used to exploit the expanding domestic market, and the non traditional markets opening up in Africa, the Gulf countries and Latin America, as the traditional markets in US, UK and Europe are being increasingly taken over by China and Bangladesh. The committee that has been set up by the Commerce Ministry headed by the Textiles Secretary to examine the long term problems of the industry should in addition to the problems of funds, marketing and exports push the industry to develop and execute the modernisation and diversification programme.

<u>Fertilisers</u> Fertiliser production is unsatisfactory, nitrogenous fertilisers production falling by 2.7 per cent in 1980-81 inspite of the commissioning of 3 new plants, with capacity use falling from 69 per cent in 1978-79 to 63 per cent in 1979-80 and to a lower 53 per cent in 1980-81. This led to higher imports - the highest in value terms at Rs.925 crores in 1980-81. For 1981-82 the target for nitrogenous fertilisers is 3.2 million tonnes and phosphatic fertiliser is 0.925 million tonnes. What is disturbing is that fertiliser consumption which increased annually by 20 per cent between 1975-76 to1978-79, fell by 2.7 per cent during 1979-80 (because of the drought), but even in the good year, 1980-81, increased by 6 per cent only. Further the price rise of 18 per cent in July will further depress demand, and the 21 per cent target between increase in consumption is unlikely to be attained. The timing of the price increase was unfortunate, as it coincided with kharif operations,

leading farmers to opt for growing varieties and crops which are not fertiliser intensive.

Textile industry The textile industry in 1981-82 functioned under the textile policy announced in early March,[26] which really is a re-iteration of the existing situation. The most urgent need in the textile field on which the policy is silent is modernisation, because with the largest cotton mill complex in the world, we are falling behind all industrialised countries as well as our neighbours, China, Taiwan, and South Korea - in introducing the new technologies, like rotor spinning and shuttleless weaving, as well as in renewing the machinery. Freezing the capacity of the organised sector, as the policy does, is no service to the decentralised sector, and even the expansion allowed for exports may not eventuate, as the industry as a whole must expand, and not a privileged part. Meanwhile the industry should be encouraged to use extensively the multi fibre policy and the government should not go back on this. The industry should use optimally the long staple varieties for spinning counts over 40s and expand its production of finer counts. The textile policy expands the controlled cloth scheme which is made the sole responsibility of the decentralised sector. Parliament before it adjourned in mid September voted funds to increase the subsidy for the controlled cloth. This raises the question, as in the case of other subsidised goods, as to whether there is a reliable distribution system which ensures that it reaches the poor consumer, and is not going in to the black market, which is what I support it to do on the basis of available evidence.

Small scale industry Small scale industry records, except in regard to to sickness, sound growth: from 16,000 units in 1950 to 8 lakhs in 1980, a growth rate of 10.8 per cent per annum, which is double the rate of industrial growth during the 3 decades, rising to 17 per cent in 1980-81, value of output increasing from Rs.12,400 crores in 1976-77 to Rs.20,934 crores in 1979-80, which was 32.6 per cent higher than that of the previous year. The industry employs 70 lakh persons. In 1979-80 its exports were Rs.1,050 crores and it produced a wide variety consumer goods. The problems it faces includes:

(a) shortage of raw materials (b) inadequate power and marketing facilities and (c) a confused and confusing group of laws and procedures. These are problems common to all industry, but the small units are more vulnerable. Further the large units, including the public sector units, delay in making their payments to the small units, and similar delays that they face in getting bank credit and rediscounting facilities can and should be corrected, as pointed out by the Public Accounts Committee of Parliament, which also questions some parts of reservation of items for the sector, as I have done earlier.

Infrastructure

Railways has been improving its performance at a very slow rate. Against a 1979-80 target of carrying 222 million tonnes, it actually carried 193 million tonnes, against the 1980-81 target of 214.5 million tonnes, the achievement was 195 million tonnes and a similar result may follow the 1981-82 target of 215 million tonnes. The question arises as to whether the continuous increase in railway fares and freight referred to earlier is a compensation for cost escalation only or a cover also for inefficiency and incapability to carry goods and passengers. There is no doubt that railways need additional resources which have not been allocated to it since the IV Plan for replacing worn out tracks, sick wagons and dated carriages. There is immediate need for renewal of worn out rails over a stretch of 6,431 km and of sleepers over 7,551 km. Of the 4 lakh wagons, over one tenth, that is some 42,000, are sick. 7,500 of the 25,000 coaches are overaged, and unless these are all provided by the end of the Sixth Plan, the railway infrastructure will continue as a constraint to industry and agriculture, particularly the production and transport of steel, coal, power, fertilisers and other essential goods. On top of the additional resources, there is need for the railways to use the wagon capacity created in the country, of which only 25 per cent is in use. The first four months, April-July 1981, recorded increased traffic movement at 68 million tonnes compared to the 4 months of 1980 58 million tonnes movement and a revenue increase of Rs.70 crores. If this trend continues, involving better use of wagons and particularly the roller bearers, there could be the attainment of the year's

target of 215 million tonnes - 102 million tonnes - 102 million tonnes between April-September and 113 million tonnes between October-March.(27)

Coal Coal production in the first five months of 1981-82, April-July, following the upward production trend of 1980-81 when the target was marginally exceeded, was 36.6 million tonnes, a rise of 7.4 per cent compared to the first five months of 1980-81 at34.1 million tonnes. At this rate, the year's target of 121 million tonnes, which is 7 million tonnes over the previous year's production, will be attained against the demand estimate of the Annual Plan of 127 million tonnes. The gap between demand andproduction will be covered by drawing on pit head stocks, which at March end 1981 was 18.3 million tonnes and at June end 16.9 million tonnes. To reduce coal stocks, unrestricted sale of low and high grade coal is being allowed, exports to Bangladesh and Japan are being expedited but not increased because these stocks are not a real surplus as the shortfall faced by railways and thermal plants show, but more important railways, steel plants, power stations, cement units and other major consumers in the private corporate sector should increase their coal stocks, as wagons supply shortfall between July and September and October to December has been very precisely calculated as ranging from 23.6 per cent for steel units to 60 per cent for fertilisers, textiles and chemical units and 30 per cent for brick kilns and small scale units. Thus the prospects for the year are adequate coal availability, and the need to take advance action to counter the transport bottleneck. The other problem which calls for action by Coal India and the Planning Commission which is responsible for investments is the trend for the increase in poor quality coal. The production of metallurgical coal from underground mines is declining (from 65 million tonnes in 1976-77 to 55 million tonnes in 1980-81), while the production of low grade coal from open cast mines, which is unsuited for use by steel, glass, cement and railways etc, is on the increase. There is need for more investment in underground mines.

Power The power situation is still a constraint, though a declining one. Power generation increased by 5.7 per cent in 1980-81 at 118.5 billion units and is planned to increase by 10 per cent at 130 billion units in 1981-82,

according to the Annual Plan. Other paper plans include a 15 year National Power Plan which envisages an additional 70,000 MW above the present 31,000 MW relying mainly on setting up 8 super thermal plants. In 1981-82 additional generation capacity of 3,000 MW is to be commissioned and capacity use of power plants is to be increased from last year's 44.6 per cent to 49.2 per cent this year. The government reports a 17 per cent increase in power generation in the first five months April-July. What does all this mean in practice? In August/September power in West Bengal is still woefully inadequate, power to industrial users in Punjab, Haryana and Rajasthan have been drastically reduced to make power available to drought hit farmers, and UP has a power cut of 50 per cent. The prospects in these areas for the year are not good, unlike the North East states, Orissa, Kerala and the Southern States and Maharashtra and Gujarat where the monsoons has assured good hydel generation. The ministry is honest in forecasting a shortfall in power generation in the first 2 years of the Plan of 2800 MW (800 MW in 1980-81 and 2,000 MW this year) with serious consequences for the agricultural and industrial projects.

Crude The crude requirements for 1981-82 are placed at 31 million tonnes which will be met through 16.9 million tonnes of indigenous production and 16 million tonnes of import, along side of 5.77 million tonnes of petroleum products at a foreign exchange of Rs.5,500 crores. Government plans to step up domestic crude oil production to 30 million tonnes by the end of the Plan* and so decided to lease 32 blocks - 17 offshore and 15 onshore to foreign oil companies. Contracts with the selected oil companies are to be on a production sharing basis, with the foreign companies being exempted from the payment of normal taxes. A number of questions arise in connection with our crude oil and petroleum products policy. First given the fact that we are spending Rs.5,500crores of our limited foreign exchange resources this year on crude and petroleum product imports, whose cost will further rise every year (even when we produce 30 million tonnes we will have

* On this basis, the latest government forecast is increased indigenous production this year by 2 million tonnes and cut to that extent in crude imports, saving Rs.800 crores in foreign exchange.

to import 16 million tonnes), is there an energy policy in the country which is economising on our crude consumption, apart from raising the petroleum products prices which the government estimates will cut crude consumption by 1 million tonnes and some Rs.250 crores in foreign exchange. The way we are consuming crude and petroleum products in transport, in manufactures, in agriculture in private consumption, without a plan to substitute cheaper fuels for costly ones is a form of inexcusable profligacy. Second the doubling of domestic production during the plan - period envisaged by the government will exhaust our crude reserves and resources even faster than that envisaged by the Draft Plan which was 1995.[28] Finally the precise terms of the contracts between the government and foreign oil companies including CFP need further consideration. The need for foreign help is being discussed and the need for production sharing is being questioned.

In this connection, India's active participation in this year's UN conference on New and Renewable sources of energy held in Nairobi was noteworthy. It is to be hoped that the 14 non conventional energy sources including solar, wind, geothermal and hydropower, in the elaboration of which India took a leading part will lead to an energy policy including these sources here at home within the next 5 years. The fact that the industrialised countries at the conference reserved for themselves the scarce non renewable energy sources, whose high costs are passed on to us through their exports, and their reserving for us these non-conventional sources-biogas, bullock carts and wind and solar energy-should be fought on the international level and should not stop us from adopting and adopting rapidly these non conventional energy sources in our own interests and as part of our ongoing tradition. The technology of these energy sources are increasingly being monopolised by Exxon, Mobil, Lockheed and other US and Japanese multinationals. Once more our plans on paper are impressive. They begin with the objective that in place of the present 40 per cent of our energy requirements being met by non-commercial sources and 60 per cent by commercial sources - oil, coal and electricity, in accordance with the studies of the newly formed commission on Additional Sources of Energy the contribution

of non-commerical sources will decline to 20 per cent by 2000 AD, and this should in part be made up by new renewable sources of solar bio conversion, wind , hydro, animal dung, geothermal and tidal energy. (Non commercial sources are firewood, animal dung and farm wastes). It states that renewable sources can replace the entire diesel oil used for water pumping and rural industries, 50 per cent of petroleum products needed for household and transport sectors, 25 per cent of fuel oil and 20 per cent of coal for heating. If these targets are implemented than 45-49 per cent of the total energy demand can be met by non commercial and new and renewable sources of energy. The range 45-49 - corresponds to (a) Reference Level Forecast (RLF) which is the demand which will arise in the absence of deliberate measures to manage energy supply and demand and/or (b) Optimal Level Forecast (OLF) which is the demand if steps recommended by the Commisssion are taken. The energy demand under RLF is 308 million tonnes of coal, 74.2 million tonnes of oil and 471 trillion watt hour (twh) electricity. The OLF figures are 266 million tonnes of coal, 54.8 million tonnesof oil and 393 twh of electricity - under RLF 45 per cent of the demand and under OLF 49 per cent of the demand can be met through non-commercial and new and renewable sources of energy. In the household sector, biogas/solar cooker can replace coal/kerosene/LPG for cooking, biogas/solar photovoltaic system can take the place of coal/kerosene for lighting, and biogas/solar water system could replace coal/kerosene/electricity for water heating. Similarly in irrigation and water supply, solar photovoltaic pump/wind mill/biogas/alcohol engine can replace diesel/electricity for pumping, in agriculture engines based on biogas/alcohol can take the place of diesel for ploughing, solar energy can replace coal for drying, solar/alcohol refrigeration system can take the place of electricity for cold storage, in industry, bio-gas/solar heating instead of coal can be used in rural industries like brick making, smithy, potteries, etc. and biogas/alcohol engine/wind mill can take the place of electricity and diesel for milling, grinding and threshing. The actual contribution of these sources will of course depend on price and availability of conventional fuels, technology developments and desire for self-reliance. This could be the start of our National Energy Policy. Now it needs to be turned into a series

of operational programmes.

Savings and Investment

First I update the Savings-Investment table that I compiled for last year's Mid Year Review, adding a column on savings and investment as percentage of Gross Domestic Product (GDP), as the Sixth Plan and Annual Plan (1981-82) express these quantities as ratios of GDP.

The table shows that after a decline in 1979-80, Savings and Investment recovered in 1980-81 rather sharply to the level of 23.3 and 25.0 per cent in terms of GNP and 22.5 and 24.3 per cent in terms of GDP. The small fall in domestic savings percentage in 1980-81 accompanied by sizeable increase in the inflow of foreign resources resulted in an increase in investment. The Annual Plan forecasts for this year's (1981-82) saving rate "a further improvement on account of the lagged effect on savings of the substantial increase in agriculture output achieved in 1980-81, anticipated improvement in the generation of funds by public sector enterprises, as a result of the revision of administered prices, freights and fares, and various incentives provided in the Budget for 1981-82 to promote savings. The rate of gross capital formation (investment) is also expected to be higher than in 1980-81".

Further studies of the causes of the coexistence of high rates of savings and investment with stagnating rates of overall economic growth and industrial growth, as indicated in the last two columns of the table, show that an increasing part of the growing investment is held in inventories and stocks. CSO statistics show that in the decade 1979-80 when agricultural output in real terms fell by 12.7 per cent and industrial production by 1.9 per cent, inventories increased by Rs.3,429 crores in current prices and Rs.1,588 crores in 1970-71 prices. When in the two years 1977-78 and 1978-79 national income, industrial and agricultural growth rates were high, addition to stocks were even higher at Rs.1,253 crores in 1977-78 and Rs.3,211 crores in 1978-79at current prices and Rs.702 crores and Rs.1,774 crores in constant prices. This means that to understand the effect of our investment which is our net capital formation on production and the economy we must distinguish

Year	Percentage of GNP			Percentage of NNP			Percentage of GDP			GNP growth rate	Industrial growth rate
	Savings	Investment	Foreign flow	Savings	Investment	Foreign flow	Savings	Investment	Foreign flow		
	(at market prices)										
1970-71	16.9	17.9	1.0	12.3	13.1	1.0	16.8	17.8	1	6	4.2
1974-75	19.1	20.0	0. 9	14.6	15.6	1.0	18.2	19.1	0.9	1	2
1975-76	20.7	20.6	-0.1	16.1	15.9	-0.2	20.0	19.8	-0.1	9.2	9.8
1976-77	23.0	21.4	-1.6	18.4	16.7	-1.7	21.0	20.4	-1.6	1.4	5.3
1977-78	22.9	22.3	-0.6	18.3	17.7	-0.6	21.6	20.00	-1.6	7.4	6.9
1978-79	24.6	24.3	-0.3	20.1	19.7	-0.4	23.9	23.7	-0.2	3.5	7.7
1979-80	23.5	24.1	0.6	17.3	17.8	0.5	21.2	21.8	0.6	-5	-1.4
1980-81	23.3	25.0	1.7	16.7	18.8	2.1	22.5	24.3	1.8	7	3.7
1984-85 (Plan forecast)							24.5	25.1	0.6		

Source: Reserve Bank of India, Planning Commission

between its two components - fixed assets formation and inventories. We see from the table that investments increased from 13.1 per cent of NNP in 1970-71 to 17.7 per cent in 1977-78, 19.7 per cent in 1978-79 and fell to 17.8 per cent in 1979-80. CSO[29] reports that inventories and stocks as a proportion of NDP was 2.7 per cent in 1970-71, 1.5 per cent in 1977-78, 3.5 per cent in 1978-79 and only slightly lower in the drought year 1979-80 at 3.4 per cent. If we deduct stocks from the total investment figures, we arrive at a more modest set of investment - Net Domestic Fixed Capital Formation - figures of 13.8 per cent in 1977-78, 15.5 per cent in 1978-79 and 13.2 per cent in 1979-80, which is nearer our overall economic growth and industrial development rate performance. There is also some evidence of what the absolute value of stocks and inventories amount to, which have been expressed above in percentage terms. The RBI 1965-66 estimate of stocks was Rs.20,419 crores, and using CSO norms to update it in 1979-80, it must be Rs.45,419 crores at 1970-71 prices when NNP at factor cost was Rs.44m328 crores also at 1970-71 prices. This means that the inventories accumulated over the years exceeded national income in1979-80 in the ratio of 1.02 to 1. Inventories are growing at a faster rate than the growth of national income. In part alteast for 1974-75 and 1975-76 when our food grains buffer was high, the high level of stocks can be explained. In part in a period of continuing inflation, inventories building is a hedge against inflation. Further, as I have continuously emphasised, due to the limited domestic market and domestic demand, any increase in production increases stocks. The result of this high level of stocks in our gross investment figures is that that our limited investible resources are not being put to effective use; to the extent they are used to building stocks, bank credit is not being used for productive purposes in so far as it is used for financing inventories and inventories, which being built as a hedge against inflation, contribute to inflation and frustrate the aim of price stability which we all desire. The other explanatory factors that explain the paradox of high savings-investment and stagnant economic growth rates are as noted in my last review, namely increasing inequalities of income and inflationary finance leading to increased savings and investments, high price of investment goods, high ICOR etc.

Second the net inflow figure for 1981-82 in the table is likely to be a high one in view of the fact that that the inward remittances continued to rise in 1981. It will be recalled that in 1979 it was Rs.2,775.28 crores, in 1980 it was forecast at Rs.2,500 crores, and the official and experts view was that remittances were on the decline for various reasons - the Iran-Iraq war, more attractive savings opportunities abroad etc. But in 1980 it spurted to Rs.4,467 crores to every one's surprise, and in the first six months of 1981 it is Rs.2,681.77 crores, which, at this rate, will mean a remittance of over Rs.5,000 crores. It is necessary that the remittances should be properly monitored and reported, as they have effects on prices (if spent on consumption, as is being done in Kerala), are important for our investments, and for meeting our menacing growing balance of payment deficit.

Third the composition of savings (and investment) for 1980-81 in comparison of the two previous years is:

<u>Net Domestic Savings and Investment as proportion of NNP at market prices</u>

	1978-79	1979-80	1980-81
1. Household sector	15.1	13.3	13.3
2. Public sector	4.4	3.2	2.5
3. Domestic Private Corporate Sector	0.6	0.8	0.9
4. Total Domestic savings (1+2+3)	20.1	17.3	16.7
5. Inflow of foreign resources	-0.4	0.5	2.1
6. Aggregate Investment (4+5)	19.7	17.8	18.8

Source: RBI The 1978-79 and 1979-80 figures are changed from that give in last year's review because of revisions of the national income for those years.

This shows: (a) the savings of the household sector was maintained at the previous level. Because of increase in farm incomes and increase in industrial product prices, household savings in currency, deposits, provident funds and

insurance increased but contracted in claims on government, investment in corporate shares and debentures: (b) the savings of the private corporate sector increased over the previous year because of the increase in sales turnover following the rise in physical output and higher prices: (c) the saving of the public sector declined sharply mainly due to larger dissaving by the Union government and its deficits in the two fold sense referred to earlier.(30)

Fourth the annual forecast of corporate investment for 1981(31) indicates that on the basis of project sanctions until the end of 1980, corporate investment expenditure in 1981 will be Rs.1,402 crores and in 1981 projects Rs.450 crores, which is a 15 per cent increase in current prices and 9 per cent in constant prices over the 1980 total investment level. Metal and metal products followed by chemicals and petro. chemicals are in the lead in these investments.

Fifth the unusual activity in the stock market following the budget announcement can only be seen as a not very sensible speculative foray. If the speculative flurry was due to the tax relief and concessions in the budget, it seemed to have overlooked completely the cost push forces operating in the economy and their short term and long term effect on sales, profits and dividends. In a sense the stock market boom seemed to be on acceptance of the inflationary trend in the economy, expressing the rather short sighted view that inflation is good for business and its stocks and shares because it will result in higher profits and margins. The shares index which at the end of April 1981 shot up by 40 points in a year and since the budget by 27 points has simply added to the profits and incomes of the speculators and stock dealers, has further increased the gulf between the rich andthe poor, and is a set back to sound non-inflationary growth of industry.

Sixth on the investment side, the rather sudden spurt in the capital market since October 1980 needs to be noted. In October-December 1980 Rs.43.4 crores of capital was raised of which over 80 per cent was in debentures. Then came the liberalised guidelines on debentures - to be used either for fixed capital or working capital, the rise in debt - equity ratio of 2:1 against the previous 1:1, the rise in the interest rate on debentures

to 12 per cent compared to the previous 10.5 to 11 per cent, divorce of size of debentures issue from working capital need - all which did not have an immediate effect, as the capital raised in the January-March 1981 quarter was only Rs.35.2 crores. Then came the budget which authorised raising interest ceiling on debentures from 12 per cent to 13.5 per cent followed by some bullish activity in stock market and the raising of a record Rs.138.9 crores by the capital market in the quarter April-June 1981, compared to Rs.9.3 crores in the quarter April-June 1980. Convertible bonds are now commanding attention because they offer the double attraction of capital gains and a high 13.5 per cent return. There are, however, residual problems of non-convertible which/now will have to pass the 13.5 per cent ceiling, the access or non access of the corporate sector to bank finance and public deposits, and the rationale and place of term lending institutions loans. There is need for a new effort to rationalise these various and sometimes conflicting sources of coporate finance.

I close this section of savings and investment with a reference to the valuable study on Resource Mobilisation in the Private Corporate Sector commissioned by the Associated Chamber, which among other matters throws new light on the savings trends in the private corporate sector. So far we have been guided by aggregate macro dimensions on private corporate sector savings as being 20.2 per cent of disposable income in 1979-80 to increase to 22.2 per cent in 1984-85, as being 1.5 per cent of GNP to rise to 2 per cent and as 7.4 per cent of total domestic savings to be raised to 8.3 per cent by the Plan end.(32) The Assocham study brings to this area a wealth of new information and insights which have been debated in another forum, and so I shall touch on just a few issues relevant to our savings and investment discussion. First it is empirically shown that savings in the private corporate sector have been a function of (a) profitability, (b) prices and (c) the tax system. Second the level of growth of companies and effective tax liability show that companies with high growth rates of their gross fixed assets and low effective tax liability generate a larger proportion of corporate savings because they get more fiscal relief. Third the effective corporate tax rate is an important determinant of the equity debt ratio. An increase of 1 per cent in the tax rate decreases the ratio

by 2.7 per cent. Also a 1 per cent increase in the tax rate of growth of industrial production leads to 0.45 per cent increase in the equity debt ratio. Fourth if a firm avails itself of all fiscal benefits - investment allowance, backward area concession, capital subsidy, export market development allowance, and tax holiday it can command sufficient resources for expansion and modernisation. Fifth corporate savings consisting of depreciation and plough back was 64.2 per cent of gross resources, which was due to the low level of capital formation and rising value of new capital assets with their increasing depreciation charges. The increase in annual resources mobilised was neutralised by the rise in capital costs, with an increasing proportion of the resources which were stagnant in real terms being absorbed in inventories, with deleterious effects on fixed capital formation. This confirms the earlier analysis on inventories and stocks. The conclusion of the study is that the private corporate sector is making a very small contribution to domestic savings, which, as the table at the start of the section shows, is moving up. The corporate sector must join this movement to increase domestic savings, and on this the study makes a number of important suggestions, on all of which I am in agreement, except in regard to the general lowering of the corporate tax rate, which ~~I am in agreement, except in regard to the general lowering of the corporate tax rate, which~~ the study admits, on the basis of its empirical findings, will not necessarily lead to increased savings, or the lowering of the mean marginal personal income tax rate on dividend receipients which otherwise leads to increased retentions by companies. Its recommendation on a new corporate tax structure needs to be examined and elaborated by a group of industrialists, economists and tax experts whose results could be forwarded to the Economic Administrative Reforms Commission for study and action.

Foreign Trade

1980-81 ended with a foreign trade deficit of Rs.5,535.01 crores (against the Economic Survey forecast of Rs.4,000 crores) with exports at Rs. 6,675.15 crores (11.2 per cent increase),[33] and imports at Rs.12,210.16 crores (47 per cent increase) which was translated into a balance of payments deficit

of Rs.1,000 crores by drawing Rs.4,500 crores from our net invisibles, including our foreign exchange assets which have declined by Rs.800 crores and are continuing to fall by a further Rs.500 crores during the first quarter of this year.* For 1981-82 the government has set an export target of Rs.8,400 crores which is 23 per cent higher than 1980-81 actual exports, and on imports the Annual Plan states that "the import bill is expected to increase further... and the balance of payments is expected to show a sizeable deficit". The export-import picture for the first two months of this year, April-May 1981, is less discouraging than some forecasts of a Rs.6,000 crores deficit.(34) For these two months, the ministry reports a 20 per cent increase in exports at Rs.1,010.38 crores compared to Rs.837.57crores in the corresponding two months of 1980. Imports during the two months declined by 12 per cent to Rs.1531.22 crores compared to last year's Rs.1,721.87crores. If this trend continues and if certain changes in export-import policy are made, the trade deficit for the current year could be lower than that of last year, but still disturbingly large at Rs.2,500-Rs.3,000 crores.

Against this background the import-export policies announced for this year and being operated may be reviewed. The liberal import policy which was introduced 3 years ago when our foreign exchange resources were embarrasingly high and growing and were exerting an inflationary pressure on the economy (to the point where I had pleaded in both 1977 and 1978 for a planned trade deficit)(35) need to be modified as we now are - and are likely to be during the Plan period - in a period of high trade and payments deficits. The import of machinery and components needed by industry is not in question. But the liberal import of crude and petroleum products at a cost of Rs.5,500 crores, not backed by an energy policy which can economise on this high cost import, the import of cement, which we can produce if we worked at a fuller capacity and where our cost is Rs.340 per tonne against the imported cement cost of Rs.800 per tonne, of fertilisers import at a cost of

* The Annual Report of RBI for 1981-82 reports that in its accounting year July 1980- June1981 its foreign exchange reserves declined by Rs.480 crores to which should be added the IMF Trust Fund receipt of Rs.544 crores and the IMF compensatory financing facility drawing of Rs.274 crores, making actual decline of foreign currency assets of Rs.1,298 crores.

Rs.925 crores while our fertiliser plants are functioning at 55 per cent of capacity, edible oils at a cost of Rs.700 crores, of sugar at a cost of Rs.100 crores - I exempt the import of wheat from this group of what I call unnecessary imports for reasons referred to earlier - all of which, except crude and petroleum products together, added up to a total of Rs.2,500 crores which is 33 1/3 of our export earnings need review. The import of these items, as I have pointed out, goes against the law of comparative costs, according to which we should be exporting these items. In importing these items, therefore, we are importing inflation. On top, the import replenishment policy which was introduced after the 1966 devaluation has today become a source of corruption with the free trading in REP licenses covering such items as brass scrap, stainless steel sheets, zinc, raw wool, polyster yarn and nylon filament. I have pleaded for a careful review of the scheme of export bonuses, cash subsidies and incentives, including those extended in this year's import policy to export houses and the new group of trading houses, with a view to determining how far they have expanded production and exports.

The Import policy removed 165 items from OGL, added 63 items to it, and shifted 42 items from the restricted to the banned list which will, according, to the government, reduce imports by Rs.100 crores, which, to use a now famous phrase, is chicken feed. The export policy also makes similar but smaller changes in OGL and the banned list. But these annual changes not only do not help, they simply add to bureaucratic controls and procedures, and above all are contrary to the Alexander Committee recommendation for a 3 year export-import policy (which the government had accepted). If there is one thing that our export-import trade needs, it is some stability of policy-not these annual and quite unnecessary changes.

A few other aspects of our foreign trade need comment. There are serious charges of the Rupee foreign Trade being abused through being involved in what is called switch trade - which is reexporting Indian good bought with inconvertible rupees for free foreign exchange - particularly in oil cakes, including groundnut and rice bran extractions, cotton seed extractions, and kardi seed, niger seed and mango seed extractions, as well in black pepper, cashew nut, rice etc. About Rs.400 crores are held to be

involved in this distortion of the Rupee trade which should be investigated and stopped by the government, which has the responsibility, as most of the items concerned are canalised through the State Trading Corporation. Another issue which demands study and revision is the export promotion scheme announced in Parliament in December 1980 about various liberal concessions in taxes, and import of raw materials, capital goods and technology offered to100 per cent export oriented units. To date the scheme has not called forth an adequate response. The government reports that it has received only 75 application and has cleared 23. Even these, including the established export zones at Santa Cruz and Kandla, want atleast 10 per cent of their production to be sold in the domestic market. This is a pointer to the need to develop domestic production more vigorously, using such of these incentives as are needed for the purpose.

The major components of our export trade show a certain continuity over time.(36) Today the listing in priority order is cotton goods, engineering goods, gems and jewellery, leather products and tea. These goods to start with, should be given special attention and that might be one way of not spreading our export efforts too thin. Engineering goods for instance faceinput shortages, unused capacity, dated technology, cotton textiles suffer from the MFA restrictions and lack of diversification. In fact it is generally agreed that to promote our export trade in a normal manner - not at the cost of domestic production of essential goods - there is need to streamline our industrial licensing system and cut the power of bureaucracy introduce more competitiveness in the economy to make our production more cost competitive, monitor (by the industry representatives) the quality of goods exported, import updated technology provided the receiving firms can adapt it on the Japanese stripping process bases, and above all facilitate the free and full functioning of our infrastructure ofpower, ports, transport, steel, coal and cement. This along side of a serious effort to reduce our wasteful import bill will bring our export-import trade more into balance, and atleast arrest our deteriorating value terms of trade which was a high124 in1972-73 and has since fallen, standing in 1979-80 at 73.(37)

There is then the question of the IMF loan of SDR 5 billions ($5.6 billion) which is being negotiated by the government. Around this loan, there is a public debate on, with widely differing views on the advisability of contracting the loan. The first question that arises is whether there is a need for the loan. This only the government in the ultimate analysis can answer, because only it has all the elements that can provide the answer. It should be noted that the sum is a large one for the IMF, probably its largest loan to date but it is less than the 1980-81 trade deficit that we have met. It is a credit that is to be available over a 3 year period. My own feeling is that we should concentrate on cutting imports and increasing our production and hence our exports, in which case we do not need the loan. Atleast if the production and foreign trade policy suggested here is followed, we may not need to use the additional facility (the second part of the loan) with its higher interest rate. Second there are conditions attached to the loan which relate to what the IMF calls the "structure factors" which causes a country to ask for a loan and which IMF interprets as relating to a country's (a) money supply (b) government expenditures and (c) balance of payments. The economists meeting in Calcutta pointed to the various recent decisions of the government - such as the Essential Services (anti-strike) Ordinance, the further two ordinances on budgeting and account payee cheques, the upward rise in crude prices, the resort to a tight monetary and credit policy, the so called supply side economics, the promise to reduce food and social subsidies, the continuance of liberal imports and the loosening up on capital imports, the special emphasis on exports and the floating of the Rupee which has had 34 revisions in 1980 (21 times down and 13 times up) and 20 revisions in the first quarter of 1981 (10 up and 10 down) - all because of the exchange rate war between the industrialised countries resulting in our back door devaluation - as evidence of the IMF pressure and preconditions for the loan and the government giving into them. I do not believe that the government can be so easily forced, and I believe that a number of these events listed above represent a coincidence of the IMF loan negotiations and these happenings. But there is a saying in my language, Tamil, which says that you cannot stand under a palmyrah tree and drink milk (in the orthodox fashion there is a few inches separating the cup and the lip)

and not expect the passerby not to think that you are drinking toddy. The three structural issues on which the IMF will concentrate is part of its normal responsibility. If one goes to the IMF for a loan, one must conform to its conditions. There is another saying in my language, and that is, you cannot put your finger in the snake's pit and say that the grace of God will save you from being bitten. It may be that in our own economic development interests we need to curtail money supply and government's non development expenditure. Both have run riot in 1980-81 as we have seen to the point that even the huge trade deficit did not act as a deflationary factory. Again the need for our improving our production structure, making it more competitive, importing updated technology, expanding exports, while cutting back its subsidies is one of the many conclusions of this review. As for the fear of the devaluation of the Rupee, the basket of currencies which we have adopted makes for normal adjustment of exchange rates and we should resist any suggestion for other changes. There is no case for cutting our social expenditure or inviting foreign capital. There are structural problems in Indian economy, but only <u>we</u> know what they are and only <u>we</u> can analyse them and set them right. No external body can or should be permitted to do this. But this means making the lowest possible use of the loan, if we get it.

Parallel with the many suggestions in the last Mid Year Review, India since 1980 has been contracting for a series of Eruo-dollar and international commercial loans with about 0.5 to 1 per cent above the LIBOR rate which averaged 15.5 per cent. The loans include $600 million for the Orissa Aluminium project, $200 million for ONGC, / Rs200 million for TISCO, $35 million for Gwalior Rayon, $30 million for Indian Airlines, $12 million going up to $75 million for Simpson, $30 million for ICICI and a $30 million loan now under negotiation for HUDCO. India's external commercial borrowing now places her in the 4th position among developing countries, following Mexico, Brazil, Argentina. Both in our discussion at the Mid Year Review last year and in discussion about the alternatives to the IMF loan, there is a certain euphoria about India's sound international credit standing, the strength of the rupee and our low debt servicing rate-all of which seem to forget that

once our balance of payments goes into the red, the scope for commercial borrowing will narrow, and India will cease to be an attractive international borrower. With our large and continuing balance of payment deficits, we have now reached that stage.

Employment and labour relations

The trend of employment generation and the status of unemployment in 1980-81 is not very clear. Employment Exchanges report that the number of job seekers increased from 14.43 millions in 1980 January to 16.2 million in January 1981, the largest number of unemployed being from West Bengal (2.5 million) followed by Bihar (2.3 million), Kerala (1.5 million), Andhra Pradesh (1.4 million), UP (1.3 million), Maharashtra (1.2 million) and Tamil Nadu (1. 1 million). The limitations of Employment Exchanges statistics as a precise index of unemployment are well known, but this 13 per cent increase in job seekers is part of the broader problems of CSO's report that the rural labour force will increase from 216 million in 1980 January to 240 million by the end of 1985, involving increasing the number of unemployed to 46 million. The causes for the growth in rural unemployment in 1980-81 are (a) the lagged effect of the low economic growth rate and poor harvests in 1979-80, (b) the increasing numbers of small and marginal farmers who are being forced into becoming landless agricultural labourers, and (c) the differential growth rates of agriculture between different regions.

Employment generation in 1980-81 and the 1981-82 concentrated on (a) the Integrated Rural Employment Programme under which employment is being provided to one number in each of 600 families per block. This programme is faltering for lack of credit from the banks : (b) the National Rural Employment Programme which provided 450 million mandays in 1980-81 and is aimed at providing at the rate of 350 million man days this year, if the states match the Union contribution of Rs.180 crores. The problem in this programme is the maintenance of assets being created and the picking of the type of work which will create durable assets. The immediate problem is the inadequate allocation of food grains which at the rate of 2 kg per worker per day requires 6 lakh tonnes against which the Food Department has granted only

2 lakh tonnes: (c) the Khadi and Village industries and small industries programme which is to create 1.5 million jobs. The problem with this and other such programmes planned and under way is that there is no way of knowing the actual employment creation that results: (d) the Special Livestock and Operation Flood II programme which was to generate about 2 million jobs, and again on which inflation on results are spotty: (e) the rural roads and rural godowns programme which in many states has been merged with the drought relief programme: and (f) the TRYSEM programme under which 400,000 rural youth were trained in 1980-81 to help them for self employment and set up their own ventures through the block agencies. This programme can save on overheads and gain in skilled resource personnel by ensuring coordination with local training institutions - IITs, polytechnics, technical schools, and krishi vigyan kendras. On the urban employment situation, there is even less information, except the regular reports from the public and private sector enterprises that employment rose from 214.84 lakhs in May 1979 to 224.22 lakhs in March 1980.

Information provided by the government to Parliament(38) at the monsoon session on the number of strikes and lock outs during 1978-81 is as follows:

Year	No of strikes		No. of lockouts		No.of Man days lost (in millions)	Lockouts wages lost (Rs.in crores)	Production lost (Rs.in crores)
	Public	Private	Public	Private			
1978	932	1830	15	410	28.34	10.30	108.16
1979	1056	1652	15	325	43.85	10.33	125.67
1980	956	1546	13	342	21.93	12.41	124.53
1981 (Jan-May)	323	358	3	9	5.56	0.90	7.82

This information seems to provide little justification for the Essential Services (anti strike) Act passedby Parliament. The table also shows that

industrial relations in the public sector are nearly as unsatisfactory as in the private sector and that the disruption of production from lock-outs is quite heavy. One small but growingly important frictional point in the employment scheme is the fast spreading movement of the sons of the soil theory. The public sector Hindustan Steel Works Construction reports that it continues paying wages to 5,000 workers at Bokaro/even after they completed their work, because they could not be shifted to Bhilai to do the same type of work, due to the pressures at Bhilai to employ local people only. The labour ministers committee has decided that no residential qualification should be imposed in registering a job seeker with an employment exchange for jobs in the C & D categories and equivalent positions in the public and private sector. The states must carry out this decision and not impose local residential qualification for employment.

There are two reports on wages which are important. The first is a study published in the October issue of the Indian Labour Journal (39) which shows that the Indian worker contributed an increase in value added per employee between 1960 and 1978 of Rs.1,405, while his wage increased during that period by Rs.553. While in 1960 3.2 million out of 3.6 million workers earned Rs. 470.42 crores, the total value added by them was Rs.1,017.26 crores. In 1977-78 5.5 million workers out of 7.1 million earned a total of Rs.4,196 crores, while they added Rs.8,126 crores to the national economy - all at current prices. At constant prices while the index of total emoluments rose from 100 in 1966 to 277 in 1977-78, the index of value added rose during the period from 100 to 292.6. The average annual earning per employee rose from Rs.1,290 to Rs.1,843 in the period, the annual average value added rose from Rs.2,792 to Rs.4,197 - at constant prices. The index of per capita earning at constant prices of those workers whose wages were less than Rs.400 per month fell from 100 in 1960 to 57.4 in 1975. The second is the Union ministry of labour's report on wages (40) and earnings of rural labour households published in August which is revealing. It reports that the numbers of such labour rose from 15.3 million in 1964-65 to 20.7 million in

1974-75, that the real earnings of 24.8 million rural labour households decreased by 12 per cent, despite the money wages rising from Rs.1.45 to Rs.3.24 in that period. Agricultural wages were lower than non agricultural wages, scheduled castes labour received less than caste labour, the maximum wage was in sowing operations and the minimum in transplanting operations (carried out by women). But contrary to popular belief, the report also refers to women increasingly engaging themselves in ploughing.

Annexure I

The Profile of Poverty

Table 1: The poverty line by country & state 1977-78

State/Union territories	Rural		Urban		Combined	
	Number (lakhs)	Percentage	Number (Lakhs)	Percentage	Number (lakhs)	Percentage
All India	2,527.74	50.82	518.39	38.19	3,046.10	48.13
Andhra Pradesh	170.35	43.89	36.44	35.68	206.79	42.18
Assam	88.34	52.65	7.07	37.37	95.41	51.10
Bihar	338.44	58.91	32.94	46.07	371.38	57.49
Gujarat	94.84	43.20	26.48	29.02	121.32	39.04
Haryana	22.10	23.25	6.95	31.74	29.05	24.84
Himachel Pradesh	10.37	28.12	0.51	16.56	10.88	27.23
Jammu & Kashmir	14.57	32.75	4.35	39.33	18.92	34.06
Karnataka	124.10	49.88	36.62	43.97	162.72	48.34
Kerala	93.42	46.00	22.19	51.44	115.61	46.95
Madhya Pradesh	244.59	59.82	42.74	48.09	287.33	57.73
Maharashtra	214.11	55.85	61.30	31.62	275.41	47.71
Manipur	3.42	30.54	0.56	25.48	3.98	29.71
Meghalaya	5.51	53.87	0.36	18.16	5.87	48.03
Nagaland	--	--	0.03	4.11	--	--
Orissa	158.97	68.97	10.33	42.19	169.30	66.40
Punjab	13.49	11.87	9.59	24.66	23.08	15.13
Rajasthan	85.79	33.75	19.12	33.80	104.91	33.76
Tamil Nadu	170.47	55.68	66.59	44.79	237.06	52.12
Tripura	10.93	64.28	0.61	26.34	11.54	59.73
Uttar Pradesh	429.93	50.23	72.27	49.24	502.20	59.09
West Bengal	227.65	38.94	48.10	34.71	275.75	52.54
Union territories	6.35	34.32	11.24	17.96	17.59	21.69

Source: Government Reply to Lok Sabha question No.3220 Dec. 10, 1980
and
32nd Round NSS (July 1977-June 1978).

Table 2:

Distribution of household consumer expenditure

Decile group category	YEAR					
	1958-59	1961-62	1965-66	1970-71	1972-73	[illegible]77-78
I Rural						
(i) Bottom 30 per cent	13.1	14.7	15.1	15.4	15.4	15.0
(ii) Middle 40 per cent	34.3	33.2	34.3	35.1	33.7	33.1
(iii) Top 30 per cent	52.6	52.1	50.6	49.5	50.9	51.9
II Urban						
(i) Bottom 30 per cent	13.2	12.9	13.6	13.7	13.8	13.6
(ii) Middle 40 per cent	31.7	31.4	31.9	31.8	31.9	32.4
(iii) Top 30 per cent	55.1	55.7	54.5	54.5	54.3	54.0

Source: Government of India, Planning Commission, Sixth Five Year Plan (1980-85)

Table 3

Distribution of Assets in Rural Areas

Population group	Percentage share in total assets	
	1961	1971
Lowest 10 per cent	0.1	0.1
Lower 30 per cent	2.5	2.0
Top 30 per cent	79.0	81.9
Top 10 per cent	51.4	51.0

Source: Sixth Five Year Plan (1980-85)

Table 4

Distribution of land holdings 1976-77

Size class	Number of operational holdings		Operated area	
	Lakhs	Percentage	Lakh hectares	Percent
1. Marginal (Below one hectare)	445.3	54.6	175.0	10.7
2. Small (Between one and two hectares)	147.0	18.0	208.6	12.8
3. Semi-medium (Between two and four hectares)	116.4	14.3	323.6	19.8
4. Medium (Between four and ten hectares)	82.1	10.1	496.0	30.4
5. Large (Tem hectares and above)	24.4	3.0	428.2	36.3

Source: Agricultural Census 1976-77

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